IMF

SURVEY

A PUBLICATION OF THE INTERNATIONAL MONETARY FUND

September 1995

*Supplement on the IMF*

# IMF Seeks to Strengthen Surveillance, Ensure Adequacy of Its Resources

The past year saw a quickening pace of economic and financial globalization; the increasing integration of markets for goods, services, and capital; and a vivid display of the power and discipline of international capital markets. Against this backdrop, the IMF found itself responding to major new problems and challenged anew to adapt its policies and operations while affirming its core functions.

*Development Committee Chairman Mohamed Kabbaj (left), Interim Committee Chairman Philippe Maystadt, and IMF Managing Director Michel Camdessus at the Spring Meetings.*

Global economic conditions in 1994/95 reflected recovery in the industrial economies coupled with low inflation, continuing strong growth in much of the developing world, and the beginning of growth in an increasing number of transition economies. The generally bright economic situation reaffirmed the critical role played by sound macroeconomic policies in the pursuit of high-quality, sustainable growth. In reviewing the record of recent years, Managing Director Michel Camdessus identified five prerequisites for "high-quality" growth:

- A sound, stable macroeconomic environment, which reflects a disciplined fiscal stance, an unwavering anti-inflationary monetary policy, and realistic exchange and interest rates;
- Structural policies that provide an environment for growth, including policies that bolster low saving and investment rates, and encourage a vibrant private sector;
- Liberalized trade and exchange rate regimes;
- Social policies aimed at cushioning the impact of economic adjustment; and
- Good governance.

But despite upbeat prospects for much of the world, poverty and low growth persisted in some of the least developed countries. In addition, there were episodes of exchange rate turbulence among the major currencies and rapidly shifting sentiments in international capital markets, notably a sudden and sharp reversal of capital flows to Mexico.

### Averting and Dealing with Crises

In response to the Mexican crisis, the IMF moved swiftly and on an unprecedented scale to support Mexico's strong adjustment program and to limit spillover and contagion effects from depressing economic activity in emerging markets generally. The crisis, which Camdessus termed the "first crisis of the twenty-first century," etched sharp lessons for national policymakers, and for the IMF. For policymakers, it was an object lesson in the growing abil- *(Please turn to next page)*

ity of international capital markets to exact quick and fierce punishment for policies that failed to keep pace with economic realities.

For the IMF and its member countries, the crisis was a reminder not only of how much less costly it is to avoid a crisis than to resolve one, but also of how critical it is for the IMF to have the means to deal with crises that do arise. Although the IMF has moved steadily in recent years to strengthen its surveillance over its members' policies, Mexico's experience signaled that more needed to be done. The Interim Committee, in its April 1995 communiqué, recommended a number of additional steps, including:

• A closer and more continuous dialogue between the IMF and its members, strengthened analysis, and greater candor in describing the risks attached to certain policies;

• More regular and timely provision of economic data by member countries to allow the IMF to identify emerging problems at an earlier stage, and greater use by the IMF of financial market data;

• Timely publication of comprehensive economic data. The Interim Committee also asked the IMF to develop standards for the provision of data by member countries to the public;

• Greater attention in IMF surveillance to members' financing policies and to the soundness of their financial sectors, particularly greater awareness of the risks attached to an over-reliance on easily reversible capital flows; and

• Refocusing IMF surveillance to give increased emphasis to countries whose economic disturbances, or policies, would have a systemic impact, while maintaining the quality of its policy advice to all members.

In recognition of the likelihood that even with the most effective surveillance, crises will arise, the IMF is also reexamining the adequacy of its resources and the swiftness with which it can bring them to bear in a crisis. In this context, the Executive Board is now considering:

• an expeditious initiation of the Eleventh Review of IMF Quotas;

• a review of the procedures governing, and the amount of resources available through, the IMF's General Arrangements to Borrow (GAB);

• an emergency financing mechanism that would allow the IMF to clarify the procedures under which it could respond rapidly, and on a sufficient scale, to give confidence to members and to the international monetary system; and

• an examination of the future role that could be played by the SDR.

After the June 1995 Halifax summit of the Group of Seven industrial countries, the IMF welcomed G-7 support for a strengthening of the IMF's surveillance function and for the provision of sufficient resources to allow the IMF to meet its responsibilities and manage shocks effectively. Many of the issues related to strengthened surveillance and adequate resources will be taken up at the Interim Committee meeting in October 1995.

### Intensified Efforts to Help Low-Income Countries

The continued high growth and widening access to capital markets enjoyed by many developing countries in 1994/95 was in contrast with the experience of many of the poorest countries, which remain mired in debt and in low growth. The IMF continued to emphasize the importance of increasing domestic saving, reducing inflation, enlarging the scope for market mechanisms, and improving governance. The enhanced structural adjustment facility—ESAF—remains the IMF's principal means of providing support for strong adjustment efforts on concessional terms. In April 1995, the Interim Committee stressed that multilateral lending to heavily indebted poor countries should be on concessional terms, and it asked the Executive Board to examine options for the continued financing and adaptation of the ESAF.

With regard to the plight of heavily indebted low-income countries, the IMF welcomed the first application of the "Naples terms," which were agreed by the Paris Club creditors in December 1994 and which permit greater concessionality in debt restructuring efforts. The Executive Board has asked IMF staff to reassess the means of dealing with members with protracted arrears to the IMF and to explore the use of complementary measures when heavily indebted countries have restructured their debt, for example, under the Naples terms.

### Transition Economies

Amid disruptions wrought by reversals in capital flows and episodes of volatility in interest and exchange rates, one of the year's lower-key but positive economic stories has been the large, and growing, number of the transition economies that have begun to expand. Albania, the Baltic countries, Croatia, the Czech Republic, Hungary, Poland, the Slovak Republic, and Slovenia were among those countries to record positive growth rates, and others seem poised to do so later this year. The IMF approved an SDR 4.3 billion stand-by credit for Russia in April 1995 with the expectation that it would mark a turning point for the Russian economy; it also approved an SDR 1.0 billion stand-by credit for Ukraine with the expectation that it could do the same for that country. The IMF's experience with transition economies has convinced it of the primacy of macroeconomic stabilization and structural reforms as a prerequisite for economic growth and low inflation. ■

*Organization*

# IMF Structure Shaped by Articles of Agreement

The organizational structure of the IMF is set out in its Articles of Agreement, which entered into force in December 1945. The Articles, which have since undergone three amendments, provide for a Board of Governors, an Executive Board, a Managing Director, and a staff of international civil servants.

The highest authority of the IMF is the Board of Governors, which consists of one Governor and one Alternate Governor appointed by each of the IMF's member countries. The Gover-

## EXECUTIVE BOARD

**(effective September 1, 1995)[1]**

**DIRECTOR**
*Alternate*
Casting Votes[2] of
(Percent of IMF total)

**KARIN LISSAKERS**
*Barry S. Newman*
United States
(265,518–17.83 percent)

**STEFAN SCHOENBERG**
*Bernd Esdar*
Germany
(82,665–5.55 percent)

**HACHIRO MESAKI**
*Toshihiko Fukuyama*
Japan
(82,665–5.55 percent)

**MARC-ANTOINE AUTHEMAN**
*Ambroise Fayolle*
France
(74,396–5.00 percent)

**HUW EVANS**
*Jon Shields*
United Kingdom
(74,396–5.00 percent)

**WILLY KIEKENS** (Belgium)
*Johann Prader (Austria)*

| | |
|---|---|
| Austria | Kazakhstan |
| Belarus | Luxembourg |
| Belgium | Slovak Republic |
| Czech Republic | Slovenia |
| Hungary | Turkey |

(75,983–5.10 percent)

**J. DE BEAUFORT WIJNHOLDS** (Netherlands)
*Oleh Havrylyshyn (Canada)*

| | |
|---|---|
| Armenia | Macedonia, FYR of |
| Bulgaria | Moldova |
| Croatia | Netherlands |
| Cyprus | Romania |
| Georgia | Ukraine |
| Israel | |

(72,814–4.89 percent)

**LUIS E. BERRIZBEITIA** (Venezuela)
*Vincente J. Fernández (Spain)*

| | |
|---|---|
| Costa Rica | Mexico |
| El Salvador | Nicaragua |
| Guatemala | Spain |
| Honduras | Venezuela |

(64,295–4.32 percent)

**GIULIO LANCIOTTI** (Italy)
*Nikolaos Coumbis (Greece)*

| | |
|---|---|
| Albania | Malta |
| Greece | Portugal |
| Italy | San Marino |

(59,987–4.03 percent)

**IAN D. CLARK** (Canada)
*Garrett F. Murphy (Ireland)*

| | |
|---|---|
| Antigua and Barbuda | Grenada |
| Bahamas, The | Ireland |
| Barbados | Jamaica |
| Belize | St. Kitts and Nevis |
| Canada | St. Lucia |
| Dominica | St. Vincent and the Grenadines |

(55,500–3.73 percent)

**JARLE BERGO** (Norway)
*Eva Srejber (Sweden)*

| | |
|---|---|
| Denmark | Latvia |
| Estonia | Lithuania |
| Finland | Norway |
| Iceland | Sweden |

(51,771–3.48 percent)

**MUHAMMAD AL-JASSER** (Saudi Arabia)
*Abdulrahman Al-Tuwaijri (Saudi Arabia)*
Saudi Arabia
(51,556–3.46 percent)

**EWEN L. WATERMAN** (Australia)
*Jung-Ho Kang (Korea)*

| | |
|---|---|
| Australia | New Zealand |
| Kiribati | Papua New Guinea |
| Korea | Philippines |
| Marshall Islands | Seychelles |
| Micronesia, Fed. States of | Solomon Islands |
| Mongolia | Vanuatu |
| | Western Samoa |

(49,182–3.30 percent)

**A. SHAKOUR SHAALAN** (Egypt)
*Yacoob Yousef Mohammed (Bahrain)*

| | |
|---|---|
| Bahrain | Maldives |
| Egypt | Oman |
| Iraq | Qatar |
| Jordan | Syrian Arab Republic |
| Kuwait | United Arab Emirates |
| Lebanon | Yemen, Republic of |
| Libya | |

(47,646–3.20 percent)

**DMITRI V. TULIN** (Russia)
*Aleksei V. Mozhin (Russia)*
Russia
(43,381–2.91 percent)

**J. E. ISMAEL** (Indonesia)
*Latifah Merican Cheong (Malaysia)*

| | |
|---|---|
| Cambodia | Nepal |
| Fiji | Singapore |
| Indonesia | Thailand |
| Lao PDR | Tonga |
| Malaysia | Vietnam |
| Myanmar | |

(41,775–2.80 percent)

**DANIEL KAESER** (Switzerland)
*Danuta Gotz-Kozierkiewicz (Poland)*

| | |
|---|---|
| Azerbaijan | Tajikistan |
| Kyrgyz Rep. | Turkmenistan |
| Poland | Uzbekistan |
| Switzerland | |

41,229–2.77 percent)

**ABBAS MIRAKHOR** (Islamic Republic of Iran)
*Mohammed Daïri (Morocco)*

| | |
|---|---|
| Afghanistan, Islamic State of | Iran, Islamic Rep. of |
| Algeria | Morocco |
| Ghana | Pakistan |

(39,542–2.66 percent)

**ALEXANDRE KAFKA** (Brazil)
*Alberto Calderón (Colombia)*

| | |
|---|---|
| Brazil | Guyana |
| Colombia | Haiti |
| Dominican Republic | Panama |
| Ecuador | Suriname |
| | Trinidad & Tobago |

(39,270–2.64 percent)

**K. P. GEETHAKRISHNAN** (India)
*W. Hettiarachchi (Sri Lanka)*

| | |
|---|---|
| Bangladesh | India |
| Bhutan | Sri Lanka |

(38,561–2.59 percent)

**BARNABAS S. DLAMINI** (Swaziland)
*Dinah Z. Guti (Zimbabwe)*

| | |
|---|---|
| Angola | Mozambique |
| Botswana | Namibia |
| Burundi | Nigeria |
| Eritrea | Sierra Leone |
| Ethiopia | Swaziland |
| Gambia, The | Tanzania |
| Kenya | Uganda |
| Lesotho | Zambia |
| Liberia | Zimbabwe |
| Malawi | |

(36,456–2.45 percent)

**ZHANG MING** (China)
*WEI Benhua (China)*
China
(34,102–2.29 percent)

**CARLOS SAITO** (Peru)
*A. Guillermo Zoccali (Argentina)*

| | |
|---|---|
| Argentina | Paraguay |
| Bolivia | Peru |
| Chile | Uruguay |

(31,985–2.15 percent)

**YVES-MARIE T. KOISSY** (Côte d'Ivoire)
*Alexandre Barro Chambrier (Gabon)*

| | |
|---|---|
| Benin | Guinea |
| Burkina Faso | Guinea-Bissau |
| Cameroon | Madagascar |
| Cape Verde | Mali |
| Central African Republic | Mauritania |
| Chad | Mauritius |
| Comoros | Niger |
| Congo | Rwanda |
| Côte d'Ivoire | São Tomé and Principe |
| Djibouti | Senegal |
| Equatorial Guinea | Togo |
| Gabon | |

(19,936–1.34 percent)

[1]This table is based on information available as of September 1, 1995.
[2]As of September 1, 1995, members' votes added to 1,489,187, and votes in the Executive Board added to 1,474,591. The latter does not include the votes of Somalia and South Africa, which did not participate in the 1994 Regular Election of Executive Directors. It also does not include the votes of Sudan and Zaïre, whose voting rights were suspended effective August 9, 1993, and June 2, 1994, respectively.

nors are usually ministers of finance or heads of central banks—but sometimes hold other positions of comparable rank—in their own countries.

Although the Articles also provide that the Board of Governors may establish a Council as a permanent body of the IMF at the ministerial or comparable level to supervise the management and functioning of the international monetary system and to consider any proposals to amend the Articles of Agreement, the Board of Governors has not done so. It is the Interim Committee, which was established at the 1974 Annual Meetings, that provides ministerial guidance to the Executive Board. The Interim Committee, composed of 24 IMF Governors—ministers of finance and other officials of comparable rank—meets twice a year. It reports to the IMF's Board of Governors on the management and functioning of the international monetary system and on proposals to amend the Articles of Agreement.

The Joint Ministerial Committee of the Boards of Governors of the Bank and the IMF on the Transfer of Real Resources to Developing Countries (the Development Committee) was also established in 1974 to advise and report to the two Boards of Governors on development issues. It has 24 members—ministers of finance and other officials of comparable rank—and generally meets in conjunction with the meetings of the Interim Committee.

The Board of Governors normally meets once a year, but it may meet or vote by mail at other times. It has delegated many of its powers to the Executive Board, which is the permanent decision-making organ of the IMF, located at its headquarters in Washington, D.C. The Executive Board currently consists of 24 Executive Directors, who are appointed or elected by member countries.

The Executive Board deals with a wide variety of policy, operational, and administrative matters, which include surveillance of members' exchange rate policies, provision of IMF financial assistance to member countries, consultations with members, and comprehensive studies on issues of importance to the membership.

The Executive Board also selects the Managing Director of the IMF, who serves as Chairman of the Board and as the head of the IMF's staff. The Managing Director, under the direction of the Executive Board, conducts the day-to-day business of the IMF. ■

*Quotas*

# Quotas Determine Members' Voting Power And Access to IMF Resources

Each member of the IMF has a quota, expressed in SDRs, that is equal to its subscription in the IMF. The quota, which is intended to reflect the relative size of the member's economy, is the most fundamental element in a member's financial and organizational relations with the IMF. It determines a member's voting power in the IMF, which is based on 1 vote for each SDR 100,000 of its quota plus the 250 basic votes to which each member is entitled. Each member's quota also determines, in all but exceptional circumstances, its maximum access to the financial resources of the IMF. It also determines its share in allocations of SDRs by the IMF. A member is generally required to pay up to 25 percent of its quota in SDRs or in currencies of other members specified by the IMF, with the concurrence of the issuers; it pays the remainder in its own currency.

### Initial Quotas

The initial quotas of the original members of the IMF were related to—but not strictly determined by—the Bretton Woods formula, which included such basic variables as average annual import and export flows, gold holdings and dollar balances, and national income. This formula served as the basis for determining initial quotas of new members until the early 1960s.

In 1963, the Bretton Woods formula was revised and a number of other quota formulas were introduced. Taken together, these were used as guides in determining initial quotas of new members and increases in quotas. These formulas employed the economic data described above, but also expanded the data coverage to include parallel calculations that employed current account transactions and the variability of current receipts in place of the data on exports and imports.

The quota formulas were further revised in the early 1980s. The procedure for calculating quotas was simplified, and the quality of the economic data used in the formulas was improved. GDP replaced national income; a broader measure of official reserves was employed; and the calculations used data on current account transactions, rather than trade data on imports and exports.

### Quotas of New Members

When a country applies for IMF membership, the IMF staff calculates a quota for the new member and compares it with the quotas of existing

## IMF Quotas[1]

(million SDRs)

| Member | | Member | | Member | | Member | |
|---|---|---|---|---|---|---|---|
| Afghanistan, Islamic State of | 120.4 | Egypt | 678.4 | Libya | 817.6 | São Tomé and Príncipe | 5.5 |
| Albania | 35.3 | El Salvador | 125.6 | Lithuania | 103.5 | Saudi Arabia | 5,130.6 |
| Algeria | 914.4 | Equatorial Guinea | 24.3 | Luxembourg | 135.5 | Senegal | 118.9 |
| Angola | 207.3 | Eritrea | 11.5 | Macedonia, former Yugoslav Republic of | 49.6 | Seychelles | 6.0 |
| Antigua and Barbuda | 8.5 | Estonia | 46.5 | Madagascar | 90.4 | Sierra Leone | 77.2 |
| Argentina | 1,537.1 | Ethiopia | 98.3 | Malawi | 50.9 | Singapore | 357.6 |
| Armenia | 67.5 | Fiji | 51.1 | Malaysia | 832.7 | Slovak Republic | 257.4 |
| Australia | 2,333.2 | Finland | 861.8 | Maldives | 5.5 | Slovenia | 150.5 |
| Austria | 1,188.3 | France | 7,414.6 | Mali | 68.9 | Solomon Islands | 7.5 |
| Azerbaijan | 117.0 | Gabon | 110.3 | Malta | 67.5 | Somalia | 44.2 |
| Bahamas, The | 94.9 | Gambia, The | 22.9 | Marshall Islands | 2.5 | South Africa | 1,365.4 |
| Bahrain | 82.8 | Georgia | 111.0 | Mauritania | 47.5 | Spain | 1,935.4 |
| Bangladesh | 392.5 | Germany | 8,241.5 | Mauritius | 73.3 | Sri Lanka | 303.6 |
| Barbados | 48.9 | Ghana | 274.0 | Mexico | 1,753.3 | Sudan | 169.7 |
| Belarus | 280.4 | Greece | 587.6 | Micronesia | 3.5 | Suriname | 67.6 |
| Belgium | 3,102.3 | Grenada | 8.5 | Moldova | 90.0 | Swaziland | 36.5 |
| Belize | 13.5 | Guatemala | 153.8 | Mongolia | 37.1 | Sweden | 1,614.0 |
| Benin | 45.3 | Guinea | 78.7 | Morocco | 427.7 | Switzerland | 2,470.4 |
| Bhutan | 4.5 | Guinea-Bissau | 10.5 | Mozambique | 84.0 | Syrian Arab Republic | 209.9 |
| Bolivia | 126.2 | Guyana | 67.2 | Myanmar | 184.9 | Tajikistan | 60.0 |
| Botswana | 36.6 | Haiti | 60.7 | Namibia | 99.6 | Tanzania | 146.9 |
| Brazil | 2,170.8 | Honduras | 95.0 | Nepal | 52.0 | Thailand | 573.9 |
| Bulgaria | 464.9 | Hungary | 754.8 | Netherlands | 3,444.2 | Togo | 54.3 |
| Burkina Faso | 44.2 | Iceland | 85.3 | New Zealand | 650.1 | Tonga | 5.0 |
| Burundi | 57.2 | India | 3,055.5 | Nicaragua | 96.1 | Trinidad and Tobago | 246.8 |
| Cambodia | 65.0 | Indonesia | 1,497.6 | Niger | 48.3 | Tunisia | 206.0 |
| Cameroon | 135.1 | Iran, Islamic Republic of | 1,078.5 | Nigeria | 1,281.6 | Turkey | 642.0 |
| Canada | 4,320.3 | Iraq | 504.0 | Norway | 1,104.6 | Turkmenistan | 48.0 |
| Cape Verde | 7.0 | Ireland | 525.0 | Oman | 119.4 | Uganda | 133.9 |
| Central African Republic | 41.2 | Israel | 666.2 | Pakistan | 758.2 | Ukraine | 997.3 |
| Chad | 41.3 | Italy | 4,590.7 | Panama | 149.6 | United Arab Emirates | 392.1 |
| Chile | 621.7 | Jamaica | 200.9 | Papua New Guinea | 95.3 | United Kingdom | 7,414.6 |
| China | 3,385.2 | Japan | 8,241.5 | Paraguay | 72.1 | United States | 26,526.8 |
| Colombia | 561.3 | Jordan | 121.7 | Peru | 466.1 | Uruguay | 225.3 |
| Comoros | 6.5 | Kazakhstan | 247.5 | Philippines | 633.4 | Uzbekistan | 199.5 |
| Congo | 57.9 | Kenya | 199.4 | Poland | 988.5 | Vanuatu | 12.5 |
| Costa Rica | 119.0 | Kiribati | 4.0 | Portugal | 557.6 | Venezuela | 1,951.3 |
| Côte d'Ivoire | 238.2 | Korea | 799.6 | Qatar | 190.5 | Vietnam | 241.6 |
| Croatia | 261.6 | Kuwait | 995.2 | Romania | 754.1 | Western Samoa | 8.5 |
| Cyprus | 100.0 | Kyrgyz Republic | 64.5 | Russia | 4,313.1 | Yemen, Republic of | 176.5 |
| Czech Republic | 589.6 | Lao People's Dem. Rep. | 39.1 | Rwanda | 59.5 | Zaire | 291.0 |
| Denmark | 1,069.9 | Latvia | 91.5 | St. Kitts and Nevis | 6.5 | Zambia | 270.3 |
| Djibouti | 11.5 | Lebanon | 146.0 | St. Lucia | 11.0 | Zimbabwe | 261.3 |
| Dominica | 6.0 | Lesotho | 23.9 | St. Vincent and the Grenadines | 6.0 | | |
| Dominican Republic | 158.8 | Liberia | 71.3 | San Marino | 10.0 | | |
| Ecuador | 219.2 | | | | | | |

[1]Quotas are those in effect as of September 1, 1995. As of that date, six members had not yet paid for their quota increases under the Ninth General Review of Quotas; the quotas listed for these members are those determined under the Eighth General Review. These members (with their Ninth Review quotas, in millions of SDRs, appearing in parentheses) are as follows: Iraq (864.8), Liberia (96.2), Somalia (60.9), Sudan (233.1), Zaire (394.8), and Zambia (363.5).

members of similar economic size and characteristics. The staff then suggests an initial quota or quota range in a paper prepared for the consideration of a committee of the Executive Board. After the country has agreed to the terms and conditions of membership—including the amount of the initial quota—proposed by the committee, the full Executive Board considers the committee's recommendations. Following approval, the Board forwards a proposed membership resolution to the IMF's Board of Governors. After the membership resolution is approved by the Board of Governors and appropriate domestic legal and procedural steps are completed, a representative of the country signs the Articles of Agreement, at which time the country becomes a member.

As of August 1, 1995, 179 countries were members of the IMF, with total quotas amounting to about SDR 144.9 billion. A formal application for membership in the IMF was received by Brunei Darussalam in May 1995. Two states of the former Socialist Federal Republic of Yugoslavia—the Federal Republic of Yugoslavia (Serbia/Montenegro) and the Republic of Bosnia and Herzegovina—have not yet completed arrangements for succession to membership in the IMF.

**Reviews of Quotas**

The Ninth General Review of Quotas was the last review to result in an increase in IMF quotas. On June 28, 1990, the IMF's Board of Governors proposed increasing total IMF quotas from SDR 90.1 billion to SDR 135.2 billion. These quota increases began taking effect in November 1992. Increased quotas were proposed for all countries, except Cambodia, which subsequently requested and was granted an ad hoc increase in March 1994 following settlement of its arrears and normalization of its relations with the IMF.

By the end of 1994/95, payments under the Ninth Review had been completed by all members that had consented to their increases. Including new members, this brought total IMF quotas to SDR 144.9 billion. At the end of April 1995, six members had overdue obligations to the General Resources Account; these members cannot consent to their quota increases until their arrears are cleared.

The Tenth General Review of Quotas was extended by the Board of Governors until December 1994. The Executive Board recommended that the Tenth Review be concluded without an increase in quotas, though it indicated it would monitor the liquidity position of the IMF closely. In early 1995, the Board of Governors, following the recommendation of the Executive Board, passed a resolution declaring the Tenth Review of Quotas completed and requesting the Executive Board to continue its work on quotas in connection with the Eleventh General Review.

**Eleventh Review of Quotas**

Developments in Mexico and Argentina in late 1994 and early 1995—as well as IMF financial support for adjustment programs in a number of transition economies—have since resulted in exceptionally large demands on the resources of the IMF and have heightened the importance of monitoring the IMF's liquidity position in the period ahead. These and other matters will be taken into account by the Eleventh General Review of Quotas, which is to be completed by March 1998. The Executive Board has begun work on this review. ■

*Surveillance*

# IMF Acts to Strengthen Surveillance Function

Central to the purposes and operations of the IMF is its mandate under the Articles of Agreement to "exercise firm surveillance over the exchange rate policies of members" and to adopt "specific principles for the guidance of all members with respect to those policies." The IMF carries out this mandate by examining international monetary issues and by analyzing all aspects of member countries' macroeconomic and related structural policies, since these policies taken together have important implications for the exchange rate system.

IMF surveillance of the global monetary system aims at promoting the balanced growth of world trade and an orderly and stable system of exchange rates. At the individual country level, it encourages countries to adopt appropriate economic policies consistent with the member's obligations under the Articles of Agreement to provide the basis for sustained noninflationary economic growth. The exercise of surveillance can help to identify issues and problems in a timely manner so that suitable corrective measures may be adopted and, in this way, periods of tension avoided.

The momentous changes taking place in the world economy have made it particularly critical for the IMF to carry out its surveillance responsibilities in an effective manner. Noteworthy among these changes are, first, the rapid growth

and internationalization of private capital markets, which have made the international monetary system more vulnerable to macroeconomic imbalances among industrial countries and to any inconsistencies that may develop between exchange rates and macroeconomic fundamentals; second, the major moves toward regional and monetary integration in many parts of the world, including in the context of economic and monetary union in Europe; and, third, the implementation of current account convertibility and market-oriented reform in a large number of countries. These unprecedented changes are being mirrored in increased responsibilities for the IMF: membership in the IMF has grown rapidly, making it a universal institution, and the IMF is assisting a record number of countries with policy advice, financing, and technical assistance and training.

### Tools of Surveillance

The IMF carries out its surveillance responsibilities mainly through:

- regular—normally annual—bilateral consultations with individual member countries (known as "Article IV consultations," because they are mandated under Article IV of the IMF's Articles); and
- multilateral discussions held in the context of the World Economic Outlook reviews, conducted twice a year.

***Article IV consultations*** systematically review economic developments and policies in the member country concerned and assess how these policies have affected the exchange rate and the balance of payments. Relevant structural policies are also examined if these are germane to macroeconomic developments and policies. In recent years, surveillance has taken more account of such topics as regional, social, industrial, labor market, and environmental issues, if these have important implications for macroeconomic policies and performance. Assessments in the context of Article IV consultations provide a comprehensive analysis of recent and prospective domestic and external developments and their effect on the international community.

***The World Economic Outlook*** discussions provide the Executive Board with a framework for reviewing members' policies from a multilateral perspective, for a systemic monitoring and analysis of the global economic situation, and for assessing prospects for the international economy under various policy assumptions.

The Board supplements its regular and systematic monitoring of developments with informal Board sessions on world economic and market developments. These are held about every six weeks, and with reviews of international capital market developments, which take place twice a year. The Board has also increased the frequency of its informal meetings on country matters; these now take place monthly. In addition, the Managing Director takes part in the policy discussions of the Group of Seven major industrial countries, where he provides a global perspective by focusing on the international repercussions of their policies.

### Reviews of Surveillance

Every two years the IMF reviews the principles and procedures that guide its surveillance and that were originally set out in a 1977 document, "Surveillance over Exchange Rate Policies." The latest review, concluded in April 1995, paid particular attention to the increased globalization of capital markets, the greater mobility of cross-border capital flows, and the ability of the IMF to identify emerging financial tensions at an early stage. The recent financial crisis in Mexico had demonstrated how quickly,

## Article IV Consultations

In accordance with Article IV of the IMF's Articles of Agreement, IMF staff members meet regularly with government officials of each member country to analyze economic developments and policies; examine fiscal, exchange rate, and monetary policies; review balance of payments and external debt developments; and assess the impact of policies—including exchange and trade restrictions—on a member's external accounts. The staff prepares a report, which forms the basis for discussion by the Executive Board.

The consultations also draw attention to the international implications of a member's policies and developments, and allow the IMF to deal promptly with a member's request for the use of IMF resources. Over the years, both the policy content and the breadth of issues have expanded. Increased emphasis has been placed on the appropriateness of a country's exchange rate policies, the medium-term implications of its economic policies, its structural reform efforts, and the stance of its trade policies.

As regional and cross-country issues have become more important in policy formulation, they have featured more prominently in Article IV consultations. Also, the growth and welfare implications of a country's macroeconomic and structural policies have increasingly been taken into account, since they may strongly affect the credibility and sustainability of a country's overall macroeconomic policy. In addition, social, industrial, labor market, and environmental issues have increasingly been taken into account if these have significant implications for macroeconomic policies and performance.

With most members, the IMF conducts its Article IV consultations on an annual basis. Currently, only 10 of its 179 member countries maintain longer (18–24 month) consultation cycles.

and fiercely, the international capital markets could react to adverse developments and underscored the urgency of preventing such crises.

The Executive Board noted the progress made in improving the flexibility, timeliness, and continuity of IMF surveillance, and welcomed the intensified contact with members between consultations. It also agreed on the need for greater transparency in key areas of surveillance, as well as more candid appraisals in staff reports.

To improve regional surveillance, Executive Directors agreed to institute annual discussions of reports on economic and currency unions and to continue the annual discussion of European Union policies in its current form, though they emphasized that Article IV consultations should remain the basic channel for surveillance. Finally, provided that staffing resources permitted and delays in concluding consultations did not ensue, Directors supported the increased clustering of Article IV consultations among countries that shared common characteristics or common issues.

### Effectiveness of Surveillance

In April 1995, the Board examined ways of enhancing the effectiveness of surveillance, reviewing in particular the IMF's experience with Mexico. In retrospect, it was clear that delays in reporting key data to the IMF and reluctance in discussing policy issues when difficulties became apparent were key elements in the crisis. But IMF surveillance had also not functioned as a clear early warning signal and had not been able to convey to Mexico the appropriate ways to disengage from the pegged exchange rate. An internal report concluded that certain aspects of the IMF's culture as well as its close relationship with its members had, on occasion, led to less effective surveillance. The Board concluded that it would be important in the future to improve the IMF's policy dialogue with member countries and make that dialogue more candid. It stressed that delays in publishing key economic and financial data could prove counterproductive.

### Statistical Data for Surveillance

In March and July 1995, the Board reviewed the statistical data provided by members for surveillance. While many members provide regular and timely data to the IMF, the Board found that in a significant number of cases the lags in data availability were too long. The Board agreed on a set of 11 core data categories that members should strive to provide to the IMF on a timely basis. In July, the Board also discussed the provision of statistical data by members to the public. It was generally agreed that the IMF could play an important role in this process by setting standards for countries' data publication practices.

### Capital Account Convertibility

In July 1995, the Board reviewed the experience with capital account convertibility in member countries and the implication for IMF policies. Over the past decade, all industrial countries and a significant number of developing countries have liberalized capital account transactions, improving the global allocation of savings but posing new challenges for economic policies. The Board agreed that more attention should be paid to capital account issues in IMF surveillance and technical assistance. It also agreed to discuss further whether it would be useful to extend the jurisdiction of the IMF, currently limited to certain current account transactions, to cover members' capital accounts.

### Precautionary Arrangements, Enhanced Surveillance, and Program Monitoring

While Article IV consultations are the central form of collaboration between the IMF and a member country, members have also sought closer collaboration in other ways, including precautionary arrangements, informal monitoring (and "shadow" programs), and enhanced surveillance.

## Article VIII

The IMF's principal purpose is to facilitate the expansion and balanced growth of international trade. In this context, the IMF seeks to contribute to the promotion and maintenance of high levels of employment and real income and to assist in establishing a multilateral system of payments with respect to current transactions between IMF members.

One way that the IMF endeavors to achieve these objectives is by helping to eliminate exchange restrictions on payments and transfers for current international transactions. Members accepting the obligations of Article VIII, Sections 2(*a*), 3, and 4 of the IMF's Articles of Agreement, undertake to refrain from imposing restrictions on the making of payments and transfers for current international transactions and from engaging in discriminatory currency arrangements or multiple currency practices without the approval of the IMF.

Many countries, however, have availed themselves of transitional arrangements under Article XIV, which permit them, without seeking IMF approval, to continue to maintain restrictions on international payments and transfers for current transactions that were in effect on the date of their membership in the IMF. Historically, members have been slow to accept the obligations of Article VIII and have accepted at a rate of fewer than two members a year since the IMF began its financial operations in 1947.

In early 1993, however, the IMF staff intensified its efforts in this regard. In 1994/95, 13 members accepted the Article VIII obligations, bringing the total number of members now accepting these obligations to 105.

Precautionary arrangements, by which members reach agreement with the IMF on stand-by or extended arrangements but do not use IMF resources, are useful in indicating the IMF's endorsement of a member's policies and serve to boost confidence in those policies. Informal monitoring provides members with a more intensive dialogue with the IMF and may take the shape of setting quantitative benchmarks under a shadow program or closer collaboration in formulating policies, but it does not constitute a formal IMF endorsement. Likewise, enhanced surveillance does not imply an IMF endorsement of policies; it was initially established in 1985 to facilitate multiyear debt-rescheduling agreements with commercial banks and has been used sparingly.

These less formal arrangements offer members a flexible means of closer collaboration with the IMF.

*Conditionality*

# Ensuring Effective Use of Revolving Resources

In providing financial support to a member country, the IMF must be sure that the member is pursuing policies that will ameliorate or eliminate its external payments problem. The explicit commitment that members make to a set of remedial policy measures in return for the IMF's support is known as "conditionality." It also ensures that members are able to repay the IMF in a timely manner so that the IMF's limited pool of financial resources can be made available to other members in balance of payments need. Conditionality requirements may range from rather general commitments to cooperate with the IMF in setting policies to formulating a specific, quantified plan for financial policies.

Use of the IMF's general resources in the upper credit tranches is phased, and entails a letter of intent, which outlines a government's policy intentions during the program period; policy changes that must be taken before approval of the arrangement; performance criteria, which are objective indicators for certain policies that must be satisfied on a quarterly or semiannual basis for drawings to be made; and periodic reviews during the arrangement that allow the Executive Board to assess the consistency of policies with the objectives of the program.

### Flexible Approach

Although IMF conditionality employs specified performance criteria, it does not rely on a rigid set of operational rules. In 1979, the Executive Board adopted guidelines on conditionality. These guidelines:

- encourage members to adopt corrective measures at an early stage;
- stress that the IMF should pay due regard to members' domestic social and political objectives, as well as their economic priorities and circumstances, in designing its conditionality;
- permit flexibility in determining the number and content of performance criteria; and
- stress that IMF arrangements are not contractual agreements with members but rather decisions of the IMF that set out—in consultation with the members—the conditions for its financial assistance.

### Basis for Conditionality

Conditionality is an essential element in the IMF's effort to help member countries alleviate balance of payments problems. If the balance of payments problem is temporary and self-correcting, adequate financing on a temporary basis is all that is needed. It is neither desirable nor feasible, however, to finance balance of payments deficits over a protracted period without addressing their underlying causes. At the same time, applying corrective measures without recourse to the necessary financing only makes the adjustment process more arduous. IMF financing, and the catalytic effect it has on securing financing from other sources, allows the adjustment period to be spread over a longer period and reduces the severity of the process. It also ensures that the member's use of IMF resources will be temporary.

### Conditionality in Practice

The IMF takes a pragmatic approach in helping members formulate economic reform programs. Given the diversity of IMF members' situations, no one model would suit all members. Each IMF-supported program is designed by the member country in close collaboration with the IMF's staff. The process involves a comprehensive review of the member's economy, including the causes and nature of its balance of payments problems, and an analysis of the policies needed to achieve a sustainable balance between the demand for, and the availability of, resources.

IMF-supported programs emphasize certain key aggregate economic variables, including domestic credit, the public sector deficit, international reserves, and external debt. They also

emphasize crucial elements of the pricing system—including the exchange rate, interest rates, and, in some cases, commodity prices—that significantly affect the country's public finances and foreign trade, as well as the supply response of the economy.

During a stand-by or extended arrangement, a member's reform program is monitored by the IMF through performance criteria that are selected according to the economic and institutional structure of the country, the availability of data, and the desirability of focusing on broad macroeconomic variables, among other considerations. Performance under programs is also monitored through periodic reviews, which allow all aspects of economic policies to be considered.

**Growth-Oriented Adjustment**

To succeed, an adjustment program must elicit an adequate response from the supply side of the economy. Interest rates and exchange rates are particularly important, since they influence saving and investment decisions and, therefore, a member's growth prospects. In emphasizing certain economic objectives, policy adjustments supported by the IMF focus on such supply-related actions as removing distortions that hamper export growth and measures to increase the efficiency of government spending. These measures help reduce a country's imbalances, while enhancing its growth prospects. Although the IMF now places more emphasis on measures to expand the supply of resources and broaden the productive base of an economy, it continues to support appropriate measures that affect demand, which remain essential to the creation of a stable economic environment conducive to sustainable growth.

In light of the greater emphasis on the structural aspects of IMF-supported programs, close collaboration between the IMF and the World Bank is important, particularly in developing programs to support members' requests for resources under the IMF's enhanced structural adjustment facility (ESAF)—its concessional lending facility.

**Social Safety Nets**

Adjustment programs typically have an impact on income distribution, employment, and social services. While the promotion of sound macroeconomic policies and structural reforms contributes to promoting sustained growth and employment, adjustment may also involve short-term social costs for vulnerable groups. Measures are built into programs supported by the IMF to compensate for these costs. In collaboration with the World Bank staff, the IMF staff analyzes the implications of reform measures for vulnerable groups and advises the authorities on how best to integrate social safety nets and their financing into programs.

**Conditionality Reviews**

Periodically, the Executive Board reviews members' experience with stand-by and extended arrangements to evaluate the appropriateness of the policy design of programs, the observance of programs, and achievements under programs. The last such reviews were held in July and November 1994, and analyzed the experience of 45 stand-by and extended arrangements in 36 member countries approved between mid-1988 and mid-1991. The Board reviewed the appropriateness of the three principal elements of the IMF's approach: reining in excessive domestic demand, adopting structural reforms, and mobilizing external financing.

Directors addressed two key questions: Did the IMF's current approach place excessive emphasis on short-term balance of payments adjustment, subordinating goals for stronger longer-term growth to that of external equilibrium? And, did the one- to two-year timeframe inhibit consideration of medium-term problems and effects? The Board concluded that:

- Adjustment programs should not be too ambitious in short-term projections for growth and investment. But careful attention needs to be paid to an appropriate balance of policies—a sustainable external position and stronger growth were mutually reinforcing.
- Programs should be framed in a medium-term context to ensure consistency and credibility, thereby enhancing the effectiveness of policies.
- Programs should strive for a transparent and predictable timetable for structural reforms to foster credibility and, therefore, a timely response from the private sector.

Directors found that substantial progress had been made in addressing fiscal imbalances, but urged greater attention to the quality of fiscal adjustment: specifically, how the structure and level of revenues and spending affect investment and growth. Directors also found that IMF-supported adjustment programs had helped ease external constraints.

Structural reforms were essential. Financial market liberalization had made notable strides, with about two thirds of the countries now holding auctions for central bank or government paper and most countries having removed controls on a significant range of interest rates. Rigidities in labor markets and insufficient job creation remained serious problems in many of these countries, however, and Directors found these problems had often not been addressed by the adjustment programs. There were several important areas where much still needed to be done, notably in improving prudential controls and bank supervision, addressing weak bank portfolios, privatizing, and restructuring expenditures. ■

*Financial Facilities*

# IMF Provides Financing for Macroeconomic And Structural Adjustment

The IMF's financial resources are made available to its members under a variety of facilities and policies, depending on the circumstances, especially the nature of the macroeconomic and structural problems to be addressed.

The IMF makes resources available under both its general resources and its concessional financing facilities. Member countries use the general resources of the IMF by making a purchase (drawing) of other members' currencies or SDRs with an equivalent amount of their own currencies. The IMF levies charges on these drawings and requires that members repurchase (repay) their own currencies from the IMF with other members' currencies or SDRs over a specified time. Concessional financing under the structural adjustment and enhanced structural adjustment facilities is made available in the form of loans.

### Regular Facilities

***Reserve Tranche.*** A member has a reserve tranche position to the extent that its quota exceeds the IMF's holdings of its currency in the General Resources Account, excluding holdings arising out of drawings made by the member under all policies governing the use of the IMF's general resources. A member may draw up to the full amount of its reserve tranche position at any time, subject only to the requirement of a balance of payments need. A reserve tranche drawing does not constitute a use of IMF credit and is not subject to charges or to an expectation or obligation to repay.

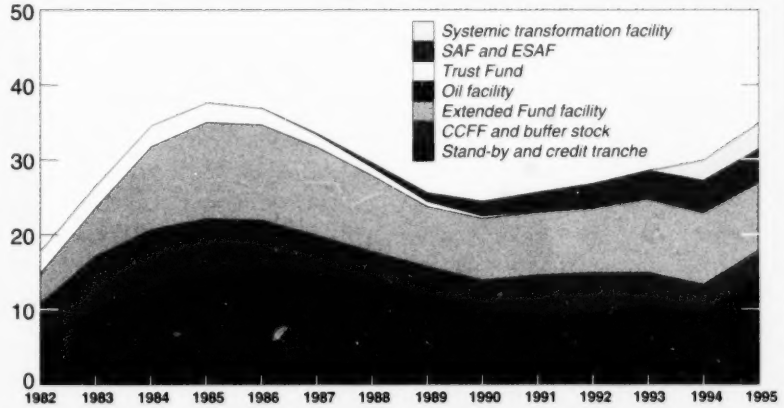
***Credit Tranches.*** IMF credit is made available in tranches (or segments) of 25 percent of a member country's quota. For drawings in the first credit tranche, members must demonstrate reasonable efforts to overcome their balance of payments difficulties. First credit tranche drawings are not phased nor are they subject to performance criteria.

Upper credit tranche drawings are made in installments and are released, if policy implementation is in line with an agreed on program. Such drawings are normally associated with stand-by or extended arrangements. These arrangements typically aim at overcoming balance of payments difficulties and supporting structural policy reforms where appropriate. Performance criteria and periodic program reviews are used to assess policy implementation.

***Stand-By Arrangements.*** Stand-by arrangements give members the right to draw up to a specified amount during a prescribed period. Drawings are phased on a quarterly basis, and their release is conditional on meeting performance criteria and the completion of periodic program reviews. Performance criteria generally cover credit policy, government or public sector borrowing requirements, trade and payments restrictions, foreign borrowing, and reserve levels. These criteria allow both the member and the IMF to assess progress and may signal the need for further corrective policies. If performance criteria are not met, members can make further drawings only if the IMF and the member country reach understandings on the resumption of drawings.

**Total IMF Credit Outstanding to Members[1]**

(billion SDRs)




[1] The IMF's financial year begins on May 1 and ends on April 30. For example, financial year 1995 began on May 1, 1994 and ended on April 30, 1995.

Data: IMF, *Annual Report* 1995

*Malian women selling produce at an outdoor market. Fruit and vegetable exports rose strongly in 1994. Mali has an ESAF arrangement with the IMF.*

Stand-by arrangements typically cover a 12–18 month period (although they can extend up to 3 years), and repayments are to be made within 3¼ to 5 years of each drawing.

In 1994/95, 17 stand-by arrangements were approved. While this number of arrangements is virtually the same as in 1993/94, the total amount of resources committed was unsurpassed in the IMF's history. Particularly noteworthy was the stand-by arrangements for Mexico for SDR 12.1 billion, of which SDR 5.3 billion was made available immediately, with contingent access to the remaining SDR 6.8 billion. The conditions under which access to the contingent SDR 6.8 billion for Mexico would be made available and phased were established in June 1995. Also noteworthy in 1994/95 were stand-by arrangements for Russia and Ukraine for amounts of SDR 4.3 billion and SDR 1 billion, respectively.

Arrangements for other Latin American and Caribbean countries totaled SDR 0.2 billion. In addition to the amounts approved for Russia and Ukraine, eight stand-by arrangements totaling SDR 1.7 billion were approved for other countries of the former Soviet Union and central and eastern European countries. Four arrangements totaling SDR 0.5 billion were approved for African countries (Algeria, Congo, Lesotho, and Malawi). The Executive Board approved augmentations totaling SDR 0.3 billion for debt- and debt-service-reduction operations for Bulgaria, Ecuador, and Poland, as well as an increase of SDR 0.1 billion in the existing stand-by arrangement for Turkey. As of April 30, 1995, a total of 19 countries had stand-by arrangements from the IMF.

***Extended Fund Facility (EFF).*** The EFF provides assistance to member countries for longer periods and in larger amounts than under credit tranche policies. Extended arrangements generally run for three years (and can be extended for a fourth year). They are aimed at overcoming balance of payments difficulties stemming largely from structural problems and requiring a longer period of adjustment. A member requesting an extended arrangement is expected to present a program outlining the objectives and policies for the whole period of the arrangement, and to present a detailed statement each year of the policies and measures it will follow in the next 12-month period. The phasing and performance criteria are comparable to those of stand-by arrangements, although phasing on a semiannual basis is possible. Countries using EFF resources must repay the currencies they have drawn within 4½ to 10 years of the drawing.

In 1994/95, the IMF approved three new extended arrangements totaling SDR 0.8 billion for Jordan, Lithuania, and the Philippines, and augmented existing arrangements for Argentina and Jordan. As of April 30, 1995, nine countries had extended arrangements, with commitments totaling SDR 6.8 billion and undrawn balances of SDR 2.5 billion.

Total commitments of IMF resources under stand-by and extended arrangements in 1994/95 were SDR 15.4 billion, which exceeded the previous historical record of SDR 14.1 billion committed in 1982/83 at the height of the debt crisis. (The SDR 15.4 billion figure for total commitments in 1994/95 excludes the contingent SDR 6.8 billion for Mexico.)

### Special Facilities

***Systemic Transformation Facility (STF).*** This temporary facility was created in April 1993 to respond to the needs of economies in transition. It provided financial assistance to members experiencing balance of payments difficulties as a result of a shift from significant reliance on trading at nonmarket prices to multilateral market-based trade. Access was limited to not more than 50 percent of quota, which could be made in two drawings and was in addition to financing obtained under other IMF facilities. Since May 1, 1995, first drawings under the STF can no longer be made, but members that have had a first drawing approved by then are eligible for a second drawing by end-December 1995.

Since the inception of the STF, 20 countries have made drawings under the facility, including 12 that have made two drawings. Drawings under the STF totaled SDR 1.1 billion in 1994/95 (compared with SDR 2.7 billion during 1993/94) and were made by eight countries of the former Soviet Union, three central and eastern European countries, and one Asian country. The largest amount

was drawn by Ukraine (SDR 0.5 billion in two drawings).

***Compensatory and Contingency Financing Facility (CCFF).*** The compensatory component of this special facility provides members that demonstrate a balance of payments need with resources to help compensate for temporary shortfalls in export earnings and services receipts and/or temporary excesses in cereal import costs that arise from events largely beyond their control.

The contingency element helps members with IMF arrangements maintain the momentum of their reform efforts when faced with unforeseen adverse external shocks. Financing is provided to cover part of the net effect of unfavorable deviations in highly volatile and easily identifiable key variables affecting the member's current account. The variables could include main export or import prices and international interest rates. Workers' remittances and tourism receipts may also be covered if they represent a

## Access to Resources Based on Need, Strength of Adjustment Effort

The rules governing access to the IMF's general resources—that is, its holdings of the currencies of member countries and SDRs, as well as borrowed resources—apply uniformly to all members. Access is determined primarily by the member's balance of payments need and the strength of its adjustment policies, and may be permitted up to limits that are defined in relation to the member's quota. The access limits may be exceeded in exceptional circumstances.

The Executive Board reviewed policies on access to IMF resources on several occasions in 1994, weighing the organization's experience since 1990 and the prospective financing needs of member countries and its own liquidity position. Guided by the principle that strong programs deserve strong support and by the need to safeguard the monetary character and catalytic role of the IMF, the Board decided that, for a three-year period beginning on October 24, 1994, the annual limit for access to the IMF's general resources under the credit tranches and extended arrangements would be increased to 100 percent of quota from 68 percent of quota. This higher annual access limit under stand-by and extended arrangements would permit increased actual access to the IMF's resources commensurate with the strength of programs. The cumulative access limit was left unchanged at 300 percent of quota, net of scheduled repayments. These limits exclude drawings under the compensatory and contingency financing facility (CCFF), the buffer stock financing facility, the enhanced structural adjustment facility (ESAF), and the systemic transformation facility (STF).

The current overall access limit under the CCFF is set at 95 percent of a member's quota. Sublimits provide maximum access equivalent to 30 percent of quota under the external contingency element; 30 percent of quota for the export-shortfall element; 15 percent of quota for the cereal-import-excess element; plus an "optional" 20 percent of quota, which may be used to supplement any of the three elements of the CCFF. When a member has a satisfactory balance of payments position—except for the effect of an export earnings shortfall or an excess in cereal import costs—a maximum access of 65 percent of quota applies to either the export or cereal element of the CCFF. Under the buffer stock financing facility, the access limit is 35 percent of quota. The maximum access under the STF is equal to 50 percent of a member's quota.

Access under ESAF arrangements differs according to members' balance of payments needs and the strength of their adjustment efforts. An eligible member country may borrow a maximum of 190 percent of its quota under a three-year arrangement, although this limit may be increased, under exceptional circumstances, up to a maximum of 255 percent of quota. ESAF access is expected to average about 110 percent of quota for first-time users. The maximum access under the STF is equal to 50 percent of a member's quota.

The IMF's access limits are reviewed annually in light of many elements, including the magnitude of members' payments problems and developments in the IMF's liquidity.

### Access Limits

**(percent of member's quota)**

| | |
|---|---|
| **Under stand-by and extended arrangements[1]** | |
| Annual | 100 |
| Cumulative | 300 |
| **Under special facilities** | |
| *Compensatory and contingency financing facility (CCFF)* | |
| Export earnings shortfall[2] | 30 |
| Excess cereal import costs[2] | 15 |
| Contingency financing[3] | 30 |
| Optional tranche[4] | 20 |
| Combined[4] | 95 |
| *Buffer stock financing facility* | 35 |
| *Systemic transformation facility* | |
| Cumulative | 50 |
| **Under SAF and ESAF arrangements** | |
| *Structural adjustment facility* | |
| First year | 15 |
| Second year | 20 |
| Third year | 15 |
| Cumulative | 50 |
| *Enhanced structural adjustment facility*[1] | |
| Three-year access[5] | 190 |

[1] Under exceptional circumstances, these limits may be exceeded.

[2] When a member has a satisfactory balance of payments position—except for the effect of an export earnings shortfall or an excess in cereal import costs—a limit of 65 percent of quota applies to either the export earnings shortfall or the excess cereal import costs, with a joint limit of 80 percent.

[3] A sublimit of 25 percent of quota applies on account of deviations in interest rates.

[4] May be applied to supplement the amounts for export earnings shortfalls, excesses in cereal imports costs, or contingency financing.

[5] Average access expected at 110 percent of quota for first-time ESAF users.

significant element in the member's current account. Deviations are measured in relation to baseline projections, which are established at the start of an arrangement. The contingency mechanism is triggered once net deviations exceed a threshold level and it is clear they will not be offset by positive movements of other key variables. Favorable deviations—such as an unexpected increase in export prices—may trigger a symmetry provision, under which a higher reserve target, a reduced drawing, or an earlier repayment would be required.

In 1994/95, Algeria and Moldova made drawings totaling SDR 0.3 billion under the CCFF; this compared with drawings of SDR 0.7 billion in 1993/94.

***Buffer Stock Financing Facility.*** Under this facility, the IMF provides resources to help finance members' contributions to approved international buffer stocks, if the member demonstrates a balance of payments need. Drawings must be repaid within 3¼ to 5 years. No drawings have been made under this facility for the past ten years, and no credits under the facility are currently outstanding.

### Emergency Assistance

In the context of balance of payments assistance under its credit tranche policies, the IMF provides emergency assistance, allowing members to make drawings to meet balance of payments needs arising from sudden and unforeseeable natural disasters. These drawings do not entail performance criteria or a phasing of disbursements, although they often precede an arrangement from the IMF under its regular facilities.

### Concessional Facilities

***Structural Adjustment Facility (SAF).*** Established in 1986, arrangements under this facility provided low-income member countries with loans on concessional terms in support of medium-term macroeconomic adjustment policies and structural reforms. In November 1993, the IMF's Executive Board agreed that no new commitments would be made under the SAF, except for amounts already set aside for Sierra Leone and Zambia in connection with rights accumulation programs (see Arrears, page 18). Subsequently, an SAF arrangement was approved for Sierra Leone, in conjunction with an ESAF arrangement, following the successful conclusion of its rights accumulation program and clearance of its arrears to the IMF. This SAF arrangement expired in March 1995; as of April 30, 1995, one SAF arrangement, for Ethiopia, was in effect.

***Enhanced Structural Adjustment Facility (ESAF).*** Established by the Executive Board in 1987, the ESAF was extended and enlarged in February 1994. With the decision to halt new commitments under the SAF and to expand significantly the resources available under the ESAF Trust Fund (the funding source for ESAF arrangements), ESAF arrangements became the principal means by which the IMF provides financial support, in the form of loans and on concessional terms, to low-income member countries facing protracted balance of payments problems.

ESAF resources are intended to support strong medium-term structural adjustment programs. Eligible members seeking the use of ESAF resources must develop, with the assistance of the staffs of the IMF and the World Bank, a policy framework for a three-year adjustment program. A policy framework paper describes the authorities' economic objectives, macroeconomic and structural policies, priorities, and the measures they intend to adopt during the three-year period. It assesses external financing needs and major sources of financing, and serves as a means of strengthening Bank-IMF collaboration and attracting financial and technical assistance in support of the adjustment program. The paper is updated annually.

Adjustment measures under the ESAF are expected to help achieve a substantial strengthening of the balance of payments position and foster growth during the three-year period. ESAF arrangements are funded by ESAF Trust resources, which are derived from loans and grants as well as from transfers from the Special Disbursement Account. Monitoring under ESAF arrangements is conducted through quarterly financial and structural benchmarks. In addition, semiannual performance criteria are set for key quantitative and structural tar-

## IMF Disbursements
**(million SDRs)**

| | Financial Year Ended April 30 | | | | |
|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| **Total disbursements** | **6,823** | **5,903** | **5,877** | **5,903** | **11,178** |
| All facilities[1] | 6,248 | 5,294 | 5,284 | 5,241 | 10,592 |
| Stand-by and first credit tranche | 1,975 | 2,343 | 2,940 | 1,052 | 7,587 |
| Compensatory and contingency financing facility | 2,127 | 1,381 | 90 | 718 | 287 |
| Extended Fund facility | 2,146 | 1,571 | 2,254 | 746 | 1,595 |
| Systemic transformation facility | — | — | — | 2,725 | 1,123 |
| Loans under SAF/ESAF arrangements | 575 | 608 | 593 | 662 | 587 |

[1] General resources, excluding reserve tranche purchases.

Data: IMF, *Annual Report 1995*

gets. ESAF loans are disbursed semiannually, initially upon approval of an annual arrangement and subsequently based on the observance of performance criteria and after completion of a midterm review. ESAF loans are repaid in ten semiannual installments, beginning 5½ years and ending 10 years after the date of each disbursement. The interest rate on ESAF loans is 0.5 percent a year.

The enlargement and extension of the ESAF Trust became effective on February 23, 1994, and is being financed by a broad cross-section of the IMF's membership. To date, commitments have been received from more than 40 countries, about half of which are developing countries. The target amount of lending for the enlargement is SDR 5 billion, which, together with the SDR 5.1 billion available before the enlargement, would expand the total lending capacity to SDR 10.1 billion. The commitment period extends to December 1996, with disbursements to be made through the end of 1999.

As of April 30, 1995, 27 ESAF arrangements were in effect. In 1994/95 the IMF approved new three-year ESAF arrangements for Bolivia, Cambodia, Guinea-Bissau, Guyana, the Kyrgyz Republic, Mauritania, Nicaragua, Senegal, Togo, Uganda, and Vietnam. The 11 new arrangements totaled SDR 1.2 billion. An additional one-year arrangement was approved for Mozambique, and access was increased under an existing arrangement with Honduras.

Cumulative commitments under all SAF and ESAF arrangements, including those that have expired, totaled SDR 6.9 billion as of April 30, 1995, compared with SDR 5.8 billion as of April 30, 1994. SAF and ESAF disbursements during 1994/95 totaled SDR 0.6 billion, somewhat below the level in 1993/94, bringing cumulative disbursements through April 30, 1995, to SDR 5.0 billion. ■

*Technical Assistance*

# Helping Jump Start and Sustain Reform Efforts

In recent years, the volume and complexity of IMF technical assistance have risen dramatically. In 1994/95, IMF resources allocated to technical assistance represented nearly 300 person years—up markedly from 170 person years in 1989/90. A sharp increase in the number of new member countries, an historic shift to market-oriented economies, and the growing number of countries pursuing reform have created an unprecedented demand for technical assistance in the IMF's core areas of central banking, exchange markets, fiscal affairs, and statistics, as well as other supporting areas.

An emerging consensus on the elements required for sustainable growth—macroeconomic stability, market reform, a liberalized trade and exchange regime, and accountable government—has facilitated the development of a more productive and synergetic relationship between macroeconomic policy and technical assistance objectives. Member countries and the IMF have become increasingly convinced that the timely provision of effective technical assistance can jump start the reform process and is a key ingredient in efforts to design, implement, and sustain policy and institutional reform.

IMF technical assistance is also confronting new challenges, notably the broadly based needs of member countries that are rebuilding in the aftermath of civil disorders that have severely disrupted their economies. During 1994/95, the IMF mounted coordinated efforts to provide prompt policy and operational advice to countries that had to re-establish governmental institutions and enable their national staff to sustain ongoing activities. In these instances, comprehensive project plans were developed encompassing virtually all sectors of technical assistance within the IMF's purview. Such programs are now operational with financial support from the United National Development Program (UNDP) in Angola, Cambodia, and Haiti. A fourth program is being developed together with the World Bank for Rwanda. Increasingly, the donor community has also called on the IMF to coordinate technical assistance efforts aimed at improving fiscal, monetary, and economic statistics.

### Setting Priorities

Because demand for technical assistance now greatly exceeds the IMF's capacity to provide assistance, arrangements have been put in place over the last three years to more rigorously prioritize and allocate technical assistance resources among member countries and regions. As part of this process, the IMF's area (regional) departments have taken on a greater role in helping to identify and prioritize countries' technical assistance needs. This work is facilitated by an interdepartmental committee of senior IMF staff (the Technical Assistance Committee).

To guide this effort, the IMF's Executive Board recently reviewed the organization's experience to identify the conditions common to the successful implementation of technical assistance. The authorities' commitment to policy and institutional reforms proved the most vital element in determining the effectiveness of techni-

cal assistance. A stable and cohesive political environment helps promote and sustain comprehensive, and often highly sensitive, reforms.

The review concluded that technical assistance does not have to be linked to IMF-supported adjustment or transition programs to be successful. Indeed, countries that had initiated strong adjustment efforts without IMF financing often requested, and made good use of, technical assistance. Nor did the size or the level of development of the recipient country determine effectiveness as long as the absorptive capacity of the country's administrative structure and the skill level of the local counterparts of technical assistance experts were factored into the planning and implementation of the technical assistance.

**Types of Technical Assistance**

Traditionally, the IMF has furnished technical assistance in five broad areas:

- design and implementation of fiscal and monetary policies;
- institution building (such as the development of central banks and treasuries);
- collection and refinement of statistical data;
- training of officials; and
- review of legislation (or, in some cases, assistance with its drafting).

The IMF provides specialized technical assistance through its various departments:

- The *Monetary and Exchange Affairs Department* assumes the lead on central banking and exchange system issues and on the design or improvement of monetary policy instruments.
- The *Fiscal Affairs Department* is chiefly responsible for policy advice on tax and expenditure reform and the design of social safety nets. The department also assists members seeking to modernize their tax and customs administrations or streamline their budget preparation process and government financial management.
- The *Statistics Department* helps members comply with internationally accepted standards of statistical reporting. Reliable data provide a critical and basic tool in formulating and implementing appropriate macroeconomic policies.
- The *IMF Institute* provides training courses, workshops, and seminars for senior and mid-level government officials on a comprehensive array of macroeconomic subjects.
- The *Legal Department* provides advice and drafting assistance for members wishing to draft new laws or recast their legal framework to support a market-oriented economy.

In addition, the *Policy Development and Review Department* provides advice on debt policy and management, and the design and implementation of trade policy reforms. The *Bureau of Computing Services* provides guidance on information technology and systems.

**Delivering Technical Assistance**

Advisory missions, composed chiefly of IMF staff, provide much of the technical assistance. They offer advice on the monetary, fiscal, and statistical problems that often lie at the heart of the macroeconomic imbalances that countries wish to address.

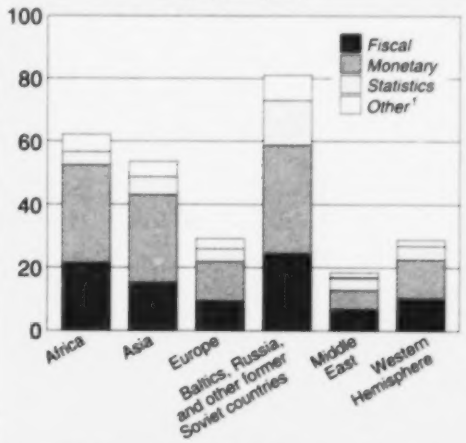
Traditionally, technical assistance had a single, well-focused objective and a relatively short time span in which to accomplish it. In recent years, technical assistance projects have grown both larger and more complex. Time horizons, particularly for institution building, have lengthened, and multiple sources of financing have been needed to underwrite costs. Large projects now commonly involve more than one IMF department and more than one donor.

**External Cooperation and Coordination**

Beginning in 1989, the IMF took formal steps to coordinate its technical assistance policies and cooperate with other multilateral and bilateral agencies to minimize conflicting advice and redundant activities. It also began to explore ways of complementing its own resources through various cofinancing arrangements with other technical assistance suppliers. This cooperation has led to a more integrated approach to the planning and implementation of technical assistance, particularly at the country level where comprehensive, multiyear programs of technical assistance are being implemented with, for example, the UNDP, the World Bank, and the European Union. The Japanese Gov-

**IMF Technical Assistance Data**
**Fiscal Year 1994/95**

(in person years)




**Note:** IMF technical assistance is conducted under the IMF's own grant resources and through financing arrangements with the United Nations Development Program, the World Bank, the European Union, the Japanese Government, and other donors.

[1]Including legal and computer services.

Data: IMF Technical Assistance Committee

ernment has continued to increase its generous annual contribution to IMF technical assistance and has recently agreed to support a new scholarship program.

Coordination has also progressed at the global level through shared information networks and data banks, as well as specialized technical steering committees and working groups. The IMF continues to give priority to participating in international forums, such as the Development Assistance Committee of the Organization for Economic Cooperation and Development, which review and coordinate technical assistance policies and procedures. In the central banking area, coordination has led to operational cooperation between the IMF and 24 central banks in providing technical assistance and training to the countries of the former Soviet Union. The IMF coordinates this arrangement with support from the Bank for International Settlements.

In recent years the IMF has concluded general technical assistance agreements with the UNDP and the Japanese Government, as well as several individual country agreements with the World Bank and the European Union. A number of bilateral donors have also supported IMF-administered technical assistance by making cash contributions to UNDP/IMF projects. To accommodate the growing interest of other potential donors in supporting IMF technical assistance, the Executive Board authorized the establishment of a Technical Assistance Framework Account in April 1995. This Framework Account permits the creation of separate subaccounts for individual donors to support IMF technical assistance activities. Subaccounts can be established easily and quickly, and can finance a variety of short- or long-term technical assistance and training activities that a donor may wish to support through the IMF. ■

*Debt Strategy*

# IMF Emphasizes Adjustment, Adequate Financial Support

The IMF has played a central role, through its policy guidance and financial support, in helping member countries cope with their external debt problems. The ultimate objective of the debt strategy is to ensure that debtor countries achieve sustainable growth and balance of payments viability, and establish normal relations with creditors, including access to international financial markets. While the instruments used have evolved over time, the basic elements of the debt strategy continue to be:

- growth-oriented adjustment and structural reform in debtor countries;
- maintenance of a favorable global economic environment; and
- adequate financial support from official (bilateral and multilateral) and private sources.

During 1994/95, and as the result of adopting strong economic programs, middle-income developing countries made considerable progress in resolving their debt difficulties. Low-income countries, by contrast, continued to confront difficult debt problems. Many had large debts to official creditors, and some had sizable commercial bank debts that needed restructuring.

### Commercial Debt Operations

The IMF continues to support debt- and debt-service-reduction operations on a case-by-case basis, with the proposed packages evaluated in light of the criteria set out in 1989:

- the strength of the member's economic policies;
- the likelihood that the package would help the country regain access to credit markets and attain external viability with growth; and
- an assessment that the package represents an efficient use of scarce resources.

The Executive Board takes into account the appropriate balance between debt- and debt-service reduction in bank debt packages, considering:

- whether the resulting debt-service profile on restructured debt is consistent with a country's likely medium-term debt-service capacity;
- whether the entire package is cost effective;
- whether the package would imply continued commercial bank involvement, where such involvement is appropriate and could be expected to provide the basis for a return to spontaneous financing; and
- whether the menu of options included in the package provides a sufficiently broad range of alternatives to ensure a high rate of participation in the package.

### Official Debt

The IMF has also played an important role through its close collaboration with official bilateral creditors in the context of the Paris Club rescheduling agreements. These agreements generally provide for the flow of current maturities of eligible debt service falling due during the consolidation period and the stock of arrears (if any) to be rescheduled, with a repayment period stretching over several years. To ensure that such relief bolsters efforts to restore balance of payments viability and to achieve sustainable economic growth, the Paris Club links

debt relief to economic programs endorsed by the IMF. In deciding upon the coverage and terms of individual rescheduling agreements, Paris Club creditors are able to draw upon the IMF's analysis and assessment of countries' debt situations.

In December 1994, Paris Club creditors agreed on new "Naples terms," which increased the level of concessionality to 67 percent from 50 percent for most low-income rescheduling countries. In addition, for countries with a good track record under rescheduling agreements and IMF-supported programs—and with the creditors' confidence in their ability to respect an agreement as an exit rescheduling (with no further reschedulings envisaged)—Naples terms provide for concessional rescheduling of the stock of eligible debt. By the end of July 1995, 11 reschedulings had taken place under Naples terms, including a stock-of-debt operation for Uganda.

Provided that Paris Club creditors apply Naples terms in a flexible manner, and these countries implement sound economic programs, the debts of the majority of the heavily indebted countries should be manageable. In a small number of these countries, however, including a few with large arrears to the IMF, debt problems seem likely to persist. The IMF and the World Bank are carefully analyzing the problems and the options available to deal with these special cases.

### Financing Assurances

The IMF's policy on financing assurances seeks to ensure that when the Executive Board approves an arrangement:

- the external financing required to support the adjustment program is available;
- the financing is consistent with the member's return to a viable balance of payments position and with an ability to repay the IMF;
- the burden of financing is shared equitably; and
- orderly relations between the member country and its creditors are maintained or re-established.

The IMF's policy on financing assurances was modified in 1989 to allow greater flexibility in the resolution of debt-servicing difficulties with commercial bank creditors. The IMF may—on a case-by-case basis—approve an arrangement before the conclusion of a financing package with commercial creditors, subject to certain conditions: if prompt IMF support is essential for program implementation; if negotiations with a country's creditor banks have begun; and if a financing package consistent with external viability is expected to be concluded within a reasonable period. Where progress has been limited over a prolonged period, however, the IMF can delay completion of a financing assurance review—and hence drawings under an IMF program—until it is satisfied that the country had made its best efforts to move toward a satisfactory conclusion. ■

## *Arrears*

# Strategy Stresses Prevention, Cooperation

Reducing and eliminating overdue financial obligations to the IMF is essential in maintaining the cooperative nature of the institution and in preserving its monetary character. The IMF continues to implement a strengthened cooperative strategy designed to resolve arrears problems. The strategy emphasizes

- prevention of new arrears;
- remedial and deterrent measures to prevent short-term arrears from becoming protracted; and
- intensified collaboration among the member countries concerned, the IMF, and other multilateral and official bilateral financial institutions to resolve existing protracted arrears.

***Prevention.*** Preventing the emergence of new arrears is the first line of defense of the strengthened cooperative strategy. The quality of a member's economic policies and its willingness to strengthen its policies are fundamental safeguards for the use of IMF resources. It is also crucial to ensure adequate financial support from other official creditors and donors during the IMF arrangement and the subsequent repayment period. In its efforts to prevent arrears, the IMF assesses a member's medium-term external viability, seeks to identify any potential problems in the repayment period, and helps to address any technical difficulties that may result in late payments.

A member's medium-term external viability and capacity to repay the IMF depend on the strength and comprehensiveness of its policies, the extent of external support, and its commitment to further policy action, if needed. In assessing risks, the IMF staff weighs the member's past debt-service record, particularly with the IMF and the

World Bank; the member's record of policy performance during IMF arrangements and while IMF credit is outstanding; and the vulnerability of the economy to external economic shocks, policy slippages, or adverse political developments. While IMF credit remains outstanding, the staff regularly reviews economic policies and the medium-term external position with the authorities to identify, early on, any emerging problems.

To avoid any technical difficulties, the staff also helps member countries secure advance authorization to debit their SDR accounts to settle obligations, provides advance notification of forthcoming obligations, and assists members in building up SDR balances before obligations are due.

***Remedial and Deterrent Measures.*** The preventive element of the arrears strategy is complemented by remedial and deterrent measures that protect the IMF's resources from further use by members in arrears and set in motion a concerted effort to resolve the problems of overdue obligations. A timetable, agreed by the Executive Board in early 1990, sets a framework for the consideration of various measures, which are then implemented if the Board, taking into account the individual country's circumstances, believes the member is not cooperating with the IMF in addressing its overdue obligations.

These steps can range from a temporary limitation on a member's use of IMF resources through the final and most severe sanction: compulsory withdrawal.

As of August 1995, five countries remained ineligible to use the general resources of the IMF. Declarations of noncooperation, a further step under the strengthened cooperative arrears strategy, remained in effect for three countries. Two members have had their voting rights suspended, and, in one case, the procedure for compulsory withdrawal has been initiated.

The Executive Board has not thus far decided to recommend this course to the Board of Governors, which must approve such a step by a majority that constitutes 85 percent of the IMF's voting power.

### Collaboration and the "Rights Approach"

IMF-monitored programs and "rights accumulation programs" provide a framework for members with protracted arrears to establish a track record on policies and payments performance. Under this approach, 11 member countries that had protracted arrears to the IMF at the end of 1989 have been eligible to accumulate rights for future drawings on IMF resources, in amounts up to the level of arrears outstanding at the beginning of the program. To avail themselves of this approach, eligible countries must enter into rights accumulation programs, which share many of the features of a normal IMF-supported macroeconomic stabilization and structural reform program, by the spring 1996 meeting of the Interim Committee. Disbursements of accumulated rights are made after the clearance of arrears to the IMF and are conditional upon satisfactory conclusion of the rights program and endorsement by the IMF of a successor arrangement or arrangements.

Five of the original 11 eligible countries—Cambodia, Guyana, Honduras, Panama, and Vietnam—have cleared their arrears to the IMF without recourse to the rights approach. Three other eligible members—Peru, Sierra Leone, and Zambia—adopted rights accumulation programs. Peru and Sierra Leone completed their rights accumulation programs and cleared their arrears to the IMF in March 1993 and March 1994, respectively. As of April 30, 1995, Zambia had accumulated rights of SDR 647 million under a rights accumulation program approved by the Executive Board in July 1992. In August 1995, the Board extended the expiration date of the program to November 30, 1995, to provide Zambia more time to accumulate the remaining rights of SDR 186 million and to complete discussions on a successor SAF/ESAF arrangement.

For the three other countries in protracted arrears at the end of 1989—Liberia, Somalia, and Sudan—the rights approach remains available, although progress has been hindered by a number of factors, including, in the first two cases, political and security problems. With or without recourse to the rights approach, settlements of protracted arrears have in each case depended on international financial support through a combination, according to circumstances, of loans, grants, Paris Club operations, and bridge financing.

### Developments in 1994/95

The level of outstanding overdue obligations to the IMF rose slightly to SDR 3.0 billion on April 30, 1995, from SDR 2.9 billion on April 30, 1994, following a decline in the previous financial year. This increase resulted largely from unpaid maturing obligations of some existing overdue members, which more than offset the clearance of the arrears of other countries.

The number of countries in arrears to the IMF by six months or more decreased from nine to eight during 1994/95, when Haiti eliminated its overdue obligations. No new cases of protracted arrears arose during the year. Deferred overdue charges from the eight countries that remain in protracted arrears amounted to SDR 1.1 billion as of the end of 1994/95, compared with SDR 1.0 billion a year earlier. ■

*SDRs*

# International Reserve Asset Also Serves as Unit of Account

The SDR (special drawing right) is an international reserve asset created by the IMF in 1969 and allocated to its members to supplement existing reserve assets. The IMF has allocated a total of SDR 21.4 billion in six allocations since 1970. As of April 30, 1995, holdings of SDRs by member countries amounted to 2.6 percent of their total nongold reserves.

At present, member countries of the IMF are eligible to receive allocations of SDRs and may use SDRs in transactions and operations among themselves, with 15 prescribed holders, and with the IMF itself. The SDR is also the unit of account of the IMF and is used as a unit of account, or as a basis for a unit of account, by a number of other international and regional organizations and international conventions. The SDR is also used to denominate private financial instruments. In addition, as of April 30, 1995, the currencies of four member countries were pegged to the SDR.

The value of the SDR is determined daily on the basis of a basket of five currencies: the U.S. dollar, the deutsche mark, the French franc, the Japanese yen, and the pound sterling. The value of the SDR tends to be more stable than that of any single currency in the basket, since movement in the exchange rate of any one component currency will tend to be partly or fully offset by movements in the exchange rates of the other currencies.

The SDR valuation basket is revised every five years. The next review, which is taking place in 1995, will ascertain the currencies of the five member countries with the largest exports of goods and services during 1990–94 in order to broadly reflect the relative importance of these currencies in international trade and reserves. In addition to deciding which currencies will be used, the review will determine the relative weights that will be allocated to each of the currencies in the basket.

The amounts of each of the five currencies will be calculated on December 29, 1995, and any revisions in the currencies or in their respective weights will take effect on January 1, 1996.

The SDR interest rate, which is adjusted weekly, is a weighted average of the yields on specified short-term instruments in the domestic money markets of the five countries whose currencies are included in the SDR basket. The financial instruments included in the SDR interest rate basket will also be reviewed in 1995 to ensure their continued representativeness in the domestic credit markets from which they are drawn and their suitability for short-term official investments.

Currently these will continue to include three-month U.S. Treasury bills, the three-month German interbank deposit rate, three-month French Treasury bills, three-month Japanese certificates of deposit, and three-month U.K. Treasury bills.

### SDR Allocations

One of the principal goals of the IMF is to facilitate the expansion and balanced growth of international trade. Effective participation in the international trade and payments system, however, requires adequate levels of reserves. If the IMF perceives a long-term global need for reserves, it can supplement existing assets through an allocation of SDRs—the timing and size of that allocation determined by its Board of Governors. The IMF has the authority to create unconditional liquidity by allocating SDRs to all member countries in proportion to their quotas. The IMF cannot allocate SDRs

## SDR Interest Rate Calculation For the Week Beginning August 28, 1995

| Currency | Currency Amount[1] | Interest Rate (percent)[2] | Exchange Rate Against the SDR[3] | Product[4] |
|---|---|---|---|---|
| Deutsche mark | 0.4530 | 4.3394 | 0.45425000 | 0.8930 |
| French francs | 0.8000 | 5.7500 | 0.13222700 | 0.6082 |
| Japanese yen | 31.8000 | 0.7800 | 0.00693901 | 0.1721 |
| Pounds sterling | 0.0812 | 6.6717 | 1.03428000 | 0.5603 |
| U.S. dollars | 0.5720 | 5.5000 | 0.67065500 | 2.1099 |
| | | | Total | 4.3435 |

**SDR interest rate = 4.34 percent**

[1] The currency components of the SDR basket.
[2] Short-term interest rates on specific domestic obligations as of Friday, August 25, 1995.
[3] Exchange rates as of August 25, expressed in SDRs per currency unit.
[4] Product of Currency Amount, Interest Rate, and Exchange Rate Against the SDR.

Data: IMF Treasurer's Department

to itself or to prescribed holders. The most recent allocation was made on January 1, 1981, when SDR 4.1 billion was allocated to the 141 countries that were members of the IMF at that time. In response to an April 1994 request of the Interim Committee, the Executive Board continued to consider the issue of an SDR allocation in 1994/95. At present, 37 new members of the IMF have not yet received an SDR allocation.

### Use of SDRs

Members with a balance of payments need may use SDRs to acquire foreign exchange in a transaction "with designation"—that is, one in which another member, designated by the IMF, provides a freely usable currency in exchange for SDRs. The IMF may designate members to provide currencies in exchange for SDRs on the basis of the strength of their balance of payments and reserve positions. A member's obligation to provide currency does not extend beyond the point at which its SDR holdings amount to three times its net cumulative allocation. The IMF and a member may, however, agree on a higher limit.

IMF members may use SDRs in a variety of voluntary transfers. These include transactions "by agreement"—that is, spot exchanges of SDRs for other monetary assets—and in operations among themselves and with prescribed holders.

In addition, SDRs may be used under special arrangements in operations under the structural adjustment facility and the enhanced structural adjustment facility. Special arrangements involving prescribed holders are needed for these operations because the IMF's Special Disbursement Account and accounts administered by the IMF may not hold SDRs directly.

The uses of SDRs between members and the IMF consist of receipts of SDRs by the IMF's General Resources Account from members and transfers of SDRs from the General Resources Account to members. IMF receipts mainly comprise charges levied on members' use of IMF resources, repurchases, and quota subscriptions. Transfers from the IMF consist mainly of purchases; remuneration on members' creditor positions; and repayments of, and interest payments on, IMF borrowing.

The total amount of SDR transfers nearly doubled to SDR 20.3 billion in 1994/95, from SDR 10.9 billion in the previous financial year as transfers from the General Resources Account and transfers among participants and prescribed holders increased sharply. Total transfers from the General Resources Account rose substantially to SDR 7.9 billion in 1994/95 from SDR 4.4 billion in 1993/94. Members' purchases from the IMF during 1994/95 of SDR 6.0 billion represented the largest category of transfer, followed by the interest on and repayment of IMF borrowing (SDR 1.0 billion). The IMF's remuneration payments to members with creditor positions, the third largest outflow, declined slightly to SDR 0.8 billion. Acquisitions of SDRs by members from the General Resources Account against payment of other members' currencies declined to SDR 0.1 billion from SDR 0.2 billion, reflecting the larger supply of SDRs available through transactions by agreement during the year.

Transfers among participants and prescribed holders reached SDR 9.6 billion in 1994/95, more than double the level of the previous financial year, reflecting the record volume of transactions by agreement, which rose to SDR 9.0 billion in 1994/95 from SDR 3.1 billion in 1993/94. Transactions by agreement continued to be facilitated by "two-way arrangements" (of which there were 12 as of April 30, 1995). Under these arrangements, members stand ready to buy or sell SDRs for one or more freely usable currencies at any time, provided that their SDR holdings remain within certain limits. These arrangements now accommodate the vast majority of acquisitions and sales of SDRs, and they have obviated any need for recourse to the designation mechanism since September 1987. These two-way arrangements facilitated the sale of SDR 3.5 billion by Mexico from its stand-by purchase in February 1995, the largest single transaction in the history of the SDR Department.

In contrast to transactions by agreement, the level of prescribed operations, mainly settlements of financial obligations and use of SDRs in same-day loan

## SDR Valuation on August 28, 1995

| Currency | Currency Amount[1] | Exchange Rate on August 28[2] | U.S. Dollar Equivalent[3] |
|---|---|---|---|
| Deutsche mark | 0.4530 | 1.46230 | 0.309786 |
| French francs | 0.8000 | 5.05050 | 0.158400 |
| Japanese yen | 31.8000 | 96.58000 | 0.329261 |
| Pounds sterling | 0.0812 | 1.55280 | 0.126087 |
| U.S. dollars | 0.5720 | 1.00000 | 0.572000 |
| | | Total | 1.495534 |

**SDR 1 = US$1.49553**
**US$1 = SDR 0.668657[4]**

[1] The currency components of the SDR basket.
[2] Exchange rates in terms of currency units per U.S. dollar except for the pound sterling, which is expressed in U.S. dollars per pound.
[3] The U.S. dollar equivalents of the currency amounts divided by the exchange rates.
[4] The official SDR value of the U.S. dollar, which is the reciprocal of the total of the U.S. dollar equivalent—that is, 1÷1.495534, rounded to six significant digits.

Data: IMF Treasurer's Department

or repayment mechanisms associated with members' payment of the reserve asset portion of their quota increases, declined to SDR 0.1 billion in 1994/95 from SDR 0.4 billion in 1993/94. Use of SDRs in IMF-related operations decreased somewhat to SDR 0.3 billion in 1994/95, while net interest on SDRs increased to SDR 0.2 billion because of higher holdings of SDRs by participants and prescribed holders.

Transfers of SDRs from participants to the General Resources Account rose to SDR 2.9 billion in 1994/95 from SDR 2.5 billion in 1993/94, reflecting the increased use of SDRs in repayments, which doubled to SDR 1.2 billion in 1994/95 from SDR 0.6 billion in 1993/94. Charges paid in SDRs remained basically unchanged at SDR 1.4 billion, while interest received by the General Resources Account on its SDR holdings fell slightly.

**SDR Holdings**

The substantial transfers of SDRs during 1994/95 shifted the pattern of SDR holdings. As in the past, the IMF was the main driving force for this redistribution, providing SDRs both to debtor and creditor members. In transferring SDRs under its quarterly operational budgets, the IMF sought to reduce its holdings of SDRs to within the range of SDR 1.0–1.5 billion by the end of 1995. The substantial use of IMF resources in the latter half of 1994/95 reduced the IMF's holdings of SDRs by SDR 5.0 billion to a level of SDR 1.0 billion as of April 30, 1995. By and large, debtor members did not hold all the SDRs they received; they sold a large proportion of these SDRs to members with two-way arrangements to obtain freely usable currencies or used them to meet financial obligations to the IMF.

Since most members with two-way arrangements are industrial countries, the SDR holdings of the industrial countries increased by SDR 4.0 billion, to SDR 15.3 billion during 1994/95. Because debtor members received slightly more SDRs than they transferred, the holdings of developing countries increased marginally to SDR 4.1 billion. In terms of net cumulative allocations, holdings of SDRs of the industrial countries rose sharply to 105.1 percent as of April 30, 1995, compared with 77.9 percent a year earlier, while those of the developing countries increased somewhat to 60.4 percent. The SDR holdings of prescribed holders increased to SDR 1.0 billion as of April 30, 1995, owing largely to the IMF's investments of SAF and ESAF resources in official SDRs maintained with the Bank for International Settlements. ■

## Prescribed Holders Of SDRs

The IMF has the authority to extend the range of official holders of SDRs beyond its member countries and the General Resources Account. It has designated, as of April 30, 1995, the following 15 organizations as prescribed holders: the African Development Bank, the African Development Fund, the Andean Reserve Fund, the Arab Monetary Fund, the Asian Development Bank, the Bank for International Settlements, the Bank of Central African States, the Central Bank of Western African States, the East African Development Bank, the Eastern Caribbean Central Bank, the International Bank for Reconstruction and Development (World Bank), the International Development Association, the International Fund for Agricultural Development, the Islamic Development Bank, and the Nordic Investment Bank.

*Income and Charges*

# IMF Takes Steps to Strengthen Financial Position

The IMF seeks to achieve a positive net income each financial year to add to its reserves, after both covering its expenses and remunerating its creditor members. Reviews of the IMF's income position and the rate of charge on the use of IMF resources take into consideration developments that affect the cost and use of its resources, including the financial consequences of overdue obligations, which are shared between debtor and creditor member countries.

The IMF has taken a number of measures to strengthen its financial position against the consequences of overdue obligations. First, a target amount of net income is added to the IMF's reserves each year. Second, the financial burden of overdue obligations is shared equally by debtor and creditor members. The cost of unpaid charges due by members with protracted arrears and the allocation to the first Special Contingent Account (SCA-1) of 5 percent of reserves at the beginning of the financial year are borne by members paying charges on the use of IMF resources and by members receiving remuneration through adjustments to the rates of charge and remuneration, except that the adjustment to the rate of remu-

neration cannot reduce that rate to less than 85 percent of the SDR interest rate. These measures have been in place since 1985, and the Executive Board has extended these burden-sharing arrangements through 1995/96.

Further adjustments are made to the rate of charge and to the rate of remuneration (subject to a floor of 80 percent of SDR interest rates) to finance additions to a second Special Contingent Account (SCA-2). The SCA-2 is intended to protect the IMF against risks associated with credit extended by the General Resources Account following rights accumulation programs and to provide additional liquidity to finance rights encashments. These further adjustments will remain in effect until SDR 1 billion has been accumulated in SCA-2. The additional adjustments added 4 basis points to the rate of charge in 1994/95. The adjustment to the rate of remuneration is set so as to yield three times the resources generated by the adjustment to the rate of charge, subject to the floor to the rate of remuneration.

When deferred overdue charges are settled, an equivalent amount is paid to members that paid higher charges or received lower remuneration under burden sharing. Settlements of deferred overdue charges amounted to SDR 16 million during the first quarter of 1995/96, bringing total cumulative refunds to SDR 696 million as of July 31, 1995. Balances in the SCA-1, which amounted to SDR 625 million as of July 31, 1995, will be returned to contributors when there are no more overdue obligations, or earlier if the IMF so decides. Balances in the SCA-2 will be distributed to members that paid additional charges or received reduced remuneration when all outstanding purchases related to the encashment of rights have been repurchased, or earlier, if the IMF so decides. As of July 31, 1995, resources placed in SCA-2 amounted to SDR 808 million.

For 1994/95 the target amount of net income to be added to reserves and the amount to be added to the SCA-1 were both set at SDR 85 million. Unpaid charges due by members in protracted arrears and contributions to the SCA-1 resulted in adjustments to the rate of charge of 34 basis points, and in adjustments to the rate of remuneration of 39 basis points. Adjustments for extended burden sharing further increased the rate of charge by 4 basis points and further reduced the rate of remuneration by 53 basis points to 80 percent of the average SDR interest rate. Shortfalls in the amounts placed in the SCA-2, owing to the 80 percent floor to the remuneration coefficient having been reached, totaled SDR 105 million as of July 31, 1995.

## General Arrangements to Borrow Provide IMF With Lines of Credit from 11 Industrial Countries

The IMF's Articles of Agreement authorize it to borrow to supplement its ordinary resources, which derive from its members' quota subscriptions—currently amounting to about SDR 145 billion. So far, the IMF has borrowed only from official sources, such as governments and central banks and the Bank for International Settlements. It also has the authority to borrow from private sources, but has not done so.

The General Arrangements to Borrow (GAB) are lines of credit from 11 industrial countries or their central banks that are available for use by the IMF under specified circumstances, at market-related rates of interest. The arrangements were established in 1962 amid concerns about the adequacy of official sources of international liquidity and the disruptive effects of short-term capital movements. The GAB has been revised and renewed several times. In 1982–83, a major reform of the GAB—prompted by the debt crisis and the strains it placed on the international financial system—expanded the combined credit lines and introduced the possibility of use by nonparticipants and associated members as if they were participants. The GAB participants are Belgium, Canada, the Deutsche Bundesbank, France, Italy, Japan, the Netherlands, the Sveriges Riksbank, the Swiss National Bank, the United Kingdom, and the United States; there is also an associated arrangement with Saudi Arabia, with similar terms. The GAB and the associated arrangement with Saudi Arabia are effective until December 26, 1998.

The potential amount of credit available to the IMF under the GAB currently totals SDR 17 billion, with an additional SDR 1.5 billion under the associated arrangement with Saudi Arabia. The GAB credit lines may be made available to the IMF, to finance any exchange transaction of GAB participants with the IMF, if necessary "to forestall or cope with an impairment of the international monetary system." For nonparticipants, criteria are stricter: drawings must be in connection with an IMF-supported adjustment program (or be in the upper credit tranches), and the balance of payments problem of the nonparticipant member must be deemed to be associated with an inadequacy of IMF resources and must constitute an "exceptional situation . . . of a character or aggregate size that could threaten the stability of the international monetary system."

The Group of Seven, at their Halifax summit in June 1995, called for the Group of Seven and other countries "to develop financing arrangements with the objective of doubling as soon as possible the amount currently available under the GAB to respond to financial emergencies." The Interim Committee will address this proposal.

These shortfalls will be recouped when the adjusted rate of remuneration rises above that floor. For 1994/95 the adjusted rate of charge on the use of IMF resources averaged 5.61 percent, and the adjusted rate of remuneration averaged 3.68 percent.

After taking into account a retroactive reduction of charges of SDR 109 million, net income for 1994/95 equaled the target amount of SDR 85 million and was added to the IMF's reserves, which rose to SDR 1.79 billion at the end of 1994/95 from SDR 1.70 billion a year earlier. The Executive Board established a net income target of SDR 89 million for 1995/96 and set the proportion for the rate of charge at 102.5 percent of the SDR interest rate.

Total precautionary balances (reserves and the balances in the two Special Contingent Accounts) amounted to SDR 3.2 billion as of April 30, 1995, and were equal to 9.8 percent of total IMF credit outstanding. The Executive Board reviewed the level and adequacy of the IMF's precautionary balances in March 1995 and set both the net income target for 1995/96 and contributions to the SCA-1 at 5 percent of reserves at the beginning of the financial year.

In view of the evolving financial structure of the IMF's operations, the Interim Committee in October 1994 asked the Executive Board to explore whether a more effective and equitable mechanism could be developed for financing the IMF's operations. The Executive Directors broadly supported an equitable sharing of the IMF's operating costs and agreed that remuneration expenses should be borne by users of IMF credit. Consensus has also emerged within the Board to explore further a possible amendment to the Articles of Agreement that would broaden the basis for cost sharing, allowing a quota-based system of sharing the cost of financing the IMF through a uniform but adjustable norm for remuneration. ■

*Liquidity*

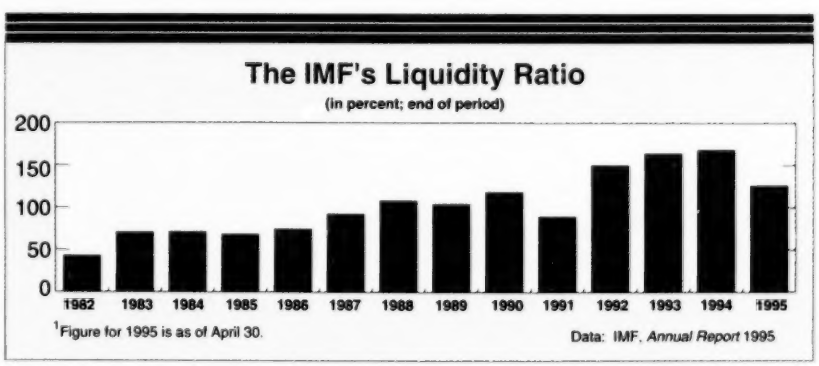
# Position Weakens Toward End Of Financial Year

The IMF's liquidity position remained adequate during 1994/95. There was, however, a significant weakening toward the end of the financial year, reflecting the substantial commitments of resources under stand-by arrangements for Mexico, Russia, and Ukraine, and the extension and augmentation of Argentina's existing extended arrangement.

The liquid resources of the IMF consist of usable currencies and SDRs held in its General Resources Account. Usable currencies, the largest component of liquid resources, are the currencies of members whose balance of payments and reserve positions are considered sufficiently strong to warrant their use in the financing of IMF operations and transactions. At the end of April 1995, the IMF's liquid resources amounted to SDR 61.6 billion, compared with SDR 68.7 billion a year earlier, primarily reflecting the large use of IMF resources during the last three months of 1994/95.

In assessing the adequacy of the IMF's liquidity, the stock of usable currencies is first reduced by the amount of resources committed under arrangements and expected to be drawn. The stock of usable currencies is reduced further to take into account the staff's assessment of the need to maintain working balances of currencies and the possibility that some currencies in relatively weak external positions could become unusable to finance IMF operations and transactions. After these adjustments were made, the IMF's uncommitted and adjusted usable liquid resources totaled SDR 42.5 billion as of April 30, 1995, compared with SDR 54.3 billion a year earlier.

The ratio of the IMF's adjusted and uncommitted usable resources to its liquid liabilities—the liquidity ratio—declined to 126.1 percent from 167.6 percent over the same period. At present, the level of liquidity remains adequate. Projections based on current policies on access and access limits indicate that the IMF remains in a position to meet the anticipated substantial demands on its resources over the next few years, while maintaining sufficient cover against any encashment of liquid liabilities. ■



*A Chronology*

# Over Half Century of Challenges and Change: Highlights of the IMF's Evolution

**JULY 1–22** **1944**

IMF and World Bank Articles of Agreement formulated at the International Monetary and Financial Conference, Bretton Woods, New Hampshire.

**DECEMBER 27** **1945**

Articles of Agreement enter into force upon signature by 29 governments, representing 80 percent of original quotas.

**MARCH 8–18** **1946**

Inaugural meeting of Board of Governors in Savannah, Georgia: by-laws adopted, agreement to locate IMF headquarters in Washington, first Executive Directors elected.

**MAY 6**

Twelve Executive Directors—five appointed and seven elected—hold inaugural meeting in Washington.

**SEPTEMBER 27–OCTOBER 5**

First Annual Meetings of Boards of Governors of IMF and World Bank in Washington.

**MARCH 1** **1947**

IMF begins operations.

**MAY 8**

First drawing from IMF (by France).

**AUGUST 13–14** **1952**

Germany and Japan become members of the IMF.

**OCTOBER 1**

Executive Board approves proposals for standardized stand-by arrangements.

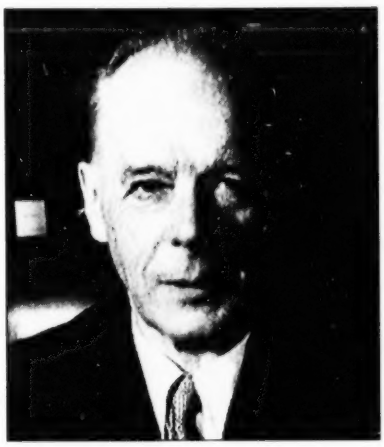
**JANUARY 5** **1962**

Executive Board adopts terms and conditions of General Arrangements to Borrow.

**FEBRUARY 27** **1963**

Compensatory financing facility created.

***Camille Gutt, from Belgium, was the IMF's first Managing Director (1946–51).***



***Ivar Rooth, from Sweden, was Managing Director from 1951 to 1956.***

**SEPTEMBER 29** **1967**

Board of Governors approves plan to establish special drawing rights (SDRs).

**JUNE 25** **1969**

Buffer stock financing facility established.

**JULY 28**

First Amendment to Articles of Agreement, establishing a facility based on the SDR, takes effect after acceptance by three fifths of membership representing four fifths of voting power.

**JANUARY 1** **1970**

First allocation of SDRs.

**AUGUST 15** **1971**

United States informs IMF it will no longer freely buy and sell gold to settle international transactions. Par values and convertibility of the dollar—two main features of Bretton Woods system—cease to exist.

**DECEMBER 18**

After four months of negotiating, Smithsonian Agreement provides for realignment of industrial country currencies and increase in price of gold. IMF establishes temporary regime of central rates and wider margins.

**JULY 26** **1972**

Board of Governors adopts resolution establishing a Committee on Reform of the International Monetary System, commonly known as the Committee of 20.

**MARCH 19** **1973**

"Generalized floating" begins as EC countries introduce joint float for their currencies against U.S. dollar.

**JANUARY 17–18** **1974**

Committee of 20 agrees world economic conditions require evolutionary approach to monetary reform.

**JUNE 12–13**

Committee of 20 concludes work, agreeing on immediate program to help monetary system evolve. Executive Board establishes oil facility; adopts "Guidelines for the Management of Floating Exchange Rates" and new method of SDR valuation based on basket of 16 currencies.

**SEPTEMBER 13**

IMF sets up extended Fund facility to give medium-term assistance to members with balance of payments problems owing to structural economic changes.

**OCTOBER 3**

Interim Committee holds inaugural meeting, following its establishment on October 2.

## 1975

**AUGUST 1**

Executive Board establishes a Subsidy Account to assist the most seriously affected members using the oil facility, to be funded by contributions.

## 1976

**JANUARY 7–8**

Interim Committee agrees on "interim reform" of monetary system, including amendment of Article IV, and other issues.

**MAY 5**

Executive Board establishes a Trust Fund to provide balance of payments assistance to developing members with profits from sale of gold. The Board also decides on policies and procedures for selling gold.

**JUNE 2**

IMF holds first gold auction under Interim Committee understandings on disposition of one third of IMF's gold holdings. Proceeds of sales to go to Trust Fund to benefit developing countries.

## 1977

**FEBRUARY 4**

IMF makes first loan disbursements under Trust Fund.

**AUGUST 29**

Executive Board establishes supplementary financing facility.

## 1978

**APRIL 1**

Second Amendment of Articles of Agreement enters into force, establishing right of members to adopt exchange rate arrangements of their choice.

**SEPTEMBER 24**

Interim Committee approves 50 percent increase in quotas under Seventh General Review, which, when accepted by all members, raises IMF general resources to SDR 58.6 billion; it also agrees on new allocations of SDR 4 billion each year for three years beginning January 1979.

***Per Jacobsson, from Sweden, was Managing Director from 1956 to 1963.***

***Pierre-Paul Schweitzer, from France, was Managing Director from 1963 to 1973.***

**DECEMBER 13**

Board of Governors adopts resolutions enabling members to increase their quotas by 50 percent under Seventh General Review of Quotas and provides for allocation of SDR 12 billion during 1979-81.

## 1979

**FEBRUARY 23**

Supplementary financing facility enters into force.

## 1980

**APRIL 25**

Interim Committee agrees IMF should be ready to play growing role in adjustment and financing of payments imbalances by providing assistance over longer periods and in larger amounts.

**SEPTEMBER 17**

IMF decides to unify and simplify, as of January 1, 1981, currency baskets determining value and interest rate on SDR. Unified basket to be composed of currencies of five members with largest exports of goods and services during 1975-79—U.S. dollar, deutsche mark, French franc, Japanese yen, and pound sterling.

**DECEMBER 1**

IMF announces it has received notifications from 128 members consenting to quota increases under Seventh General Review, meeting minimum participation requirement for quota increase, under which aggregate quotas would be raised to SDR 60 billion.

## 1981

**JANUARY 1**

IMF begins to use simplified basket of five currencies to determine daily valuation of SDR. At the same time, IMF makes third and final SDR allocation under Board of Governors' 1978 resolution; other allocations had been made in 1979 and 1980.

**MARCH 13**

IMF decides to institute policy of enlarged access to its resources following full commitment of resources from supplementary financing facility and until Eighth General Review of Quotas takes effect.

**APRIL 23**

IMF announces decisions to enhance SDR's attractiveness as reserve asset. Measures include making interest rate more competitive and eliminating reconstitution requirement (thus allowing members to use SDRs permanently).

**MAY 7**

IMF Managing Director and Governor of Saudi Arabian Monetary Agency (SAMA) sign loan agreement allowing IMF to borrow up to SDR 8 billion to finance IMF's policy of enlarged access, which thus becomes operative.

**MAY 13**

IMF reaches agreement in principle with central banks or official agencies of 13 industrial countries under which they will make available SDR 1.1 billion over two years to help finance the IMF's policy on enlarged access.

**MAY 21**

IMF decides to extend financing to members encountering balance of payments difficulties produced by excesses in cost of cereal imports. Assistance integrated into IMF's compensatory financing facility.

**JANUARY 13** **1982**

Executive Board adopts guidelines for borrowing by IMF as important temporary measure, although member country quotas remain main source of IMF financing.

**AUGUST 13**

Mexico encounters serious problems servicing its foreign debt, marking onset of debt crisis. In following months, IMF supports major adjustment programs in Mexico and several other countries facing severe debt-servicing difficulties.

**FEBRUARY–MARCH** **1983**

Interim Committee agrees to increase IMF quotas under Eighth General Review. IMF Board of Governors adopts resolution on quota increase.

**NOVEMBER 30**

Increases in quotas under Eighth General Review go into effect.

**DECEMBER 30**

Ten participants in General Arrangements to Borrow (GAB) concur on plans to revise and enlarge the GAB.

**OCTOBER 6–7** **1985**

Interim Committee agrees that approximately SDR 2.7 billion in Trust Fund reflows to become available during 1985-91 be used to provide concessional lending to low-income members.

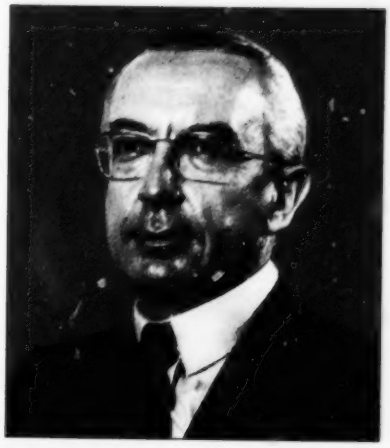
**DECEMBER 2**

IMF Managing Director and World Bank President express their institutions' broad support for U.S. debt initiative by U.S. Secretary James A. Baker, who calls for comprehensive adjustment measures by debtors, increased and more effective structural lending by multilateral development banks, and expanded lending by commercial banks.

**JANUARY 1** **1986**

IMF revises weights of currencies in SDR basket—raising yen slightly with a corresponding decrease in franc and pound.

***H. Johannes Witteveen, from the Netherlands, was Managing Director from 1973 to 1978.***



***Jacques de Larosière, from France, was Managing Director from 1978 to 1987.***

**MARCH 27**

IMF establishes structural adjustment facility (SAF) to provide balance of payments assistance on concessional terms to low-income developing countries.

**APRIL 9–10**

Interim Committee calls for enhanced policy coordination to improve functioning of floating exchange rate system.

**FEBRUARY 22** **1987**

Finance ministers of six major nations meet; IMF Managing Director participates. Ministers agree, in Louvre Accord, to intensify policy coordination by periodically reviewing medium-term economic objectives and projections and regularly examining current economic developments, and agree to cooperate closely to foster stability of exchange rates "around current levels."

**DECEMBER 29**

IMF establishes enhanced structural adjustment facility (ESAF) to provide resources to low-income members undertaking strong three-year macroeconomic and structural programs to improve their balance of payments and foster growth.

**APRIL 14–15** **1988**

Interim Committee agrees on measures to strengthen IMF assistance to members. Extended Fund facility strengthened and contributor countries agree to make ESAF operational.

**AUGUST 23**

IMF Executive Board establishes compensatory and contingency financing facility, to compensate members with shortfalls in export earnings because of circumstances beyond their control and to help maintain adjustment programs in the face of external shocks.

**SEPTEMBER 25–26**

Interim Committee endorses intensified collaborative approach to arrears problem.

**APRIL 3–4** **1989**

Interim Committee asks Executive Board to consider proposals for developing country debt relief, based in part on proposals by U.S. Treasury Secretary Nicholas F. Brady.

**MAY 23**

Executive Board adopts guidelines to deal with developing country debt problem. These include linking support for debt-reduction strategies to sustained medium-term adjustment programs with strong element of structural reform and access to IMF resources for debt or debt-service reduction.

**MAY 7–8** **1990**

Interim Committee agrees to 50 percent quota increase. Committee suggests Executive Board propose Third Amendment to Articles of Agreement, providing for suspension of voting and other membership rights for members that do not fulfill financial obligations to IMF. Committee

***Michel Camdessus, from France, has been Managing Director since 1987.***

also approves rights accumulation program, which permits members with protracted arrears to establish a track record on policies and payments performance and accumulate rights for future drawings.

**JUNE 28**

Executive Board proposes increasing total IMF quotas from SDR 90.1 billion to SDR 135.2 billion under the Ninth General Review of Quotas.

**NOVEMBER**

Executive Board approves temporary expansion of IMF facilities to support countries affected by Gulf crisis.

## JANUARY 1991

SDR currency basket revised, raising weights of yen and mark, and reducing weights of other three currencies.

**OCTOBER 5**

U.S.S.R. signs agreement with IMF providing for technical assistance, pending its application for full membership.

## APRIL–MAY 1992

Executive Board approves membership of many states of former Soviet Union.

**MAY 29**

Switzerland becomes member of IMF.

**AUGUST 5**

IMF approves $1 billion stand-by arrangement for Russia.

**NOVEMBER**

Executive Board adopts Third Amendment of Articles of Agreement. The Executive Board also determines that requirements for quota increases under Ninth General Review of Quotas have been met.

## APRIL 16 1993

Executive Board approves creation of systemic transformation facility (STF)—to assist countries facing balance of payments difficulties arising from transformation from a planned to a market economy—to be in place through 1994.

**MAY 13**

Kyrgyz Republic is first member to use STF.

## FEBRUARY 23 1994

Executive Board initiates operations under renewed and enlarged ESAF.

**MARCH–MAY**

IMF approves arrangements for 13 countries of the CFA franc zone following January realignment of CFA franc.

**JUNE 6**

IMF announces creation of three Deputy Managing Director posts—first major change in structure of senior management since 1949.

**OCTOBER**

Interim Committee adopts the Madrid Declaration, calling on industrial countries to sustain growth, reduce unemployment, and prevent a resurgence of inflation; developing countries to extend growth; and transition economies to pursue bold stabilization and reform efforts.

## FEBRUARY 1995

Executive Board approves a stand-by arrangement of SDR 12.1 billion for Mexico, the largest financial commitment in IMF history.

**APRIL**

Executive Board approves $6.8 billion stand-by arrangement for Russia.

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## CONTENTS

Volume 24, Supplement on the IMF

**Overview** *Page 1*

**Organization** *Page 3*

**Quotas** *Page 4*

**Surveillance** *Page 6*

**Conditionality** *Page 9*

**Financial Facilities** *Page 11*

**Technical Assistance** *Page 15*

**Debt Strategy** *Page 17*

**Arrears** *Page 18*

**SDRs** *Page 20*

**Income and Charges** *Page 22*

**General Arrangements to Borrow** *Page 23*

**IMF Liquidity** *Page 24*

**IMF Chronology** *Page 25*

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